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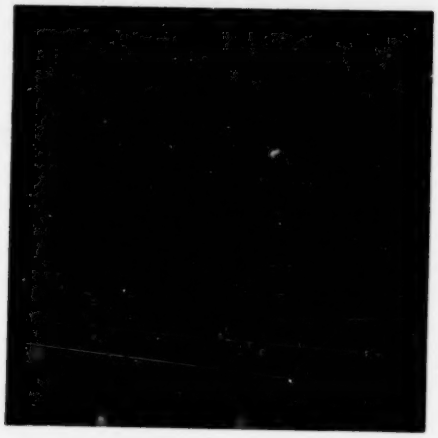

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United Nations

Fund of the United Nations International Drug Control Programme

Financial report and audited financial statements

for the biennium ended 31 December 2001 and

Report of the Board of Auditors

General Assembly
Official Records
Fifty-seventh Session
Supplement No. 5I (A/57/5/Add.9)

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Report of the Board of Auditors

United Nations • New York, 2002

Note

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30 April 2002

In accordance with financial regulation 11.4 of the United Nations and financial rule 15.3 of the Fund of the United Nations International Drug Control Programme, I have the honour to submit the financial statements of the Fund of the United Nations International Drug Control Programme for the biennium 2000-2001 ended 31 December 2001.

Copies of these financial statements are made available to the Commission on Narcotic Drugs and the Advisory Committee on Administrative and Budgetary Questions.

(*Signed*) Steinar B. **Bjornsson**
Officer in Charge
United Nations International Drug Control Programme

The Chairman
United Nations Board of Auditors
United Nations Headquarters, New York
Two United Nations Plaza, Room 2680
New York

27 June 2002

I have the honour to transmit to you the financial statements of the Fund of the United Nations International Drug Control Programme for the biennium 2000-2001 ended 31 December 2001, which were submitted by the Officer in Charge. These statements have been examined and include the audit opinion of the Board of Auditors.

In addition, I have the honour to present the report of the Board of Auditors with respect to the above accounts.

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa
and Chairman
United Nations Board of Auditors

The President of the General Assembly
of the United Nations
New York

Chapter I

Report of the Executive Director

1. The Executive Director has the honour to submit the financial statements of the Fund of the United Nations International Drug Control Programme (UNDCP) for the biennium 2000-2001, in accordance with rule 15.3 of the financial rules of the Programme and General Assembly resolution 46/185 C of 20 December 1991.

Financial situation

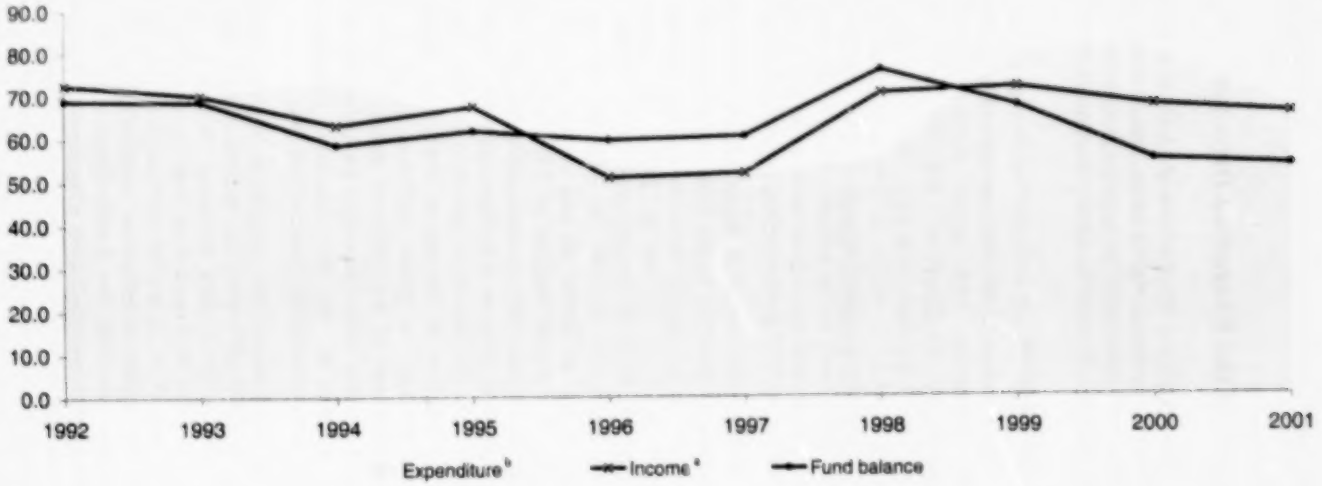
2. The biennium 2000-2001 represented a deterioration in the financial position of the Programme. Total income decreased by $8.9 million, or 6.3 per cent, compared with the biennium 1998-1999. Total expenditure increased by $10.5 million, or 7.7 per cent, over 1998-1999. As shown in table I.1, income decreased from a high of $71.6 million in 1999 to $67.3 million in 2000 and $65.4 million in 2001, reflecting decreased support of the Programme by Member States. However, expenditures could not be adjusted fully in line with the income decline, especially in 2001, with total expenditure peaking at $79.8 million in 2000 as compared with $80 million in 1999 and decreasing to only $66.8 million in 2001.

3. In particular, a lack of donor confidence resulting from various management shortcomings identified by the Office of Internal Oversight Services and the Board of Auditors, is reflected in the decline in general-purpose income from $18.1 million in 2000 to $13.2 million in 2001. The general-purpose fund balance has consequently declined sharply, from $20.9 million at the start of 2000 to $9.8 million at the end of 2001. In addition, various large and important projects launched with insufficient funding since 1998-1999 had resulted in the build-up of unfunded future-year budgets of $89 million at the start of 2001 exposing the Programme to potentially unmanageable financial and operational risks. A change in policy requiring projects to be launched with a minimum of 50 per cent funding and reviews of the detailed project portfolio in 2001 reduced these unfunded budgets by some 25 per cent by the end of 2001, with further reductions still required for projects unlikely to attract sufficient funds in the future. On the basis of recommendations of the Office of Internal Oversight Services and the Board of Auditors, various reform measures are under way which, together with further steps to be initiated by the new Executive Director, are aimed at improving the Programme and restoring financial stability.

4. On the positive side, programme delivery continued to improve, from $97.3 million in 1998-1999 to $110.2 million in 2000-2001, or by 13.3 per cent. On the other hand, support costs decreased from $39.2 million in 1998-1999 to $36.7 million in 2000-2001, or 6.4 per cent. This resulted in an improved programme-to-support ratio of 71:29 in 1998-1999 to 75:25 in 2000-2001. These figures reflect the continuing impact of initiatives introduced in 1998-1999 related to more focused programme priorities, the decentralization of responsibility to the field and the streamlining of implementation arrangements. The programme is now classified into four main sectors or thematic areas, and a history of annual programme expenditure is given by each sector in table I.2. Efficiencies and cost-control measures were also exercised over support costs in 2000-2001, which is reflected in the decrease in support costs. Support cost recovery from projects by special-purpose income improved from $5.1 million in 1998-1999 to $6.1 million in 2000-2001

Table I.1
Fund of the United Nations International Drug Control Programme: income, expenditure and fund balance
(Millions of United States dollars)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Income [a]	72.5	70.1	63.1	67.4	51.0	52.0	70.3	71.6	67.3	65.4
Expenditure [b]	66.9	70.4	73.2	64.1	53.2	51.1	55.1	80.0	79.8	66.8
Fund balance	68.9	68.6	58.5	61.8	59.6	60.5	75.7	67.3	54.8	53.4

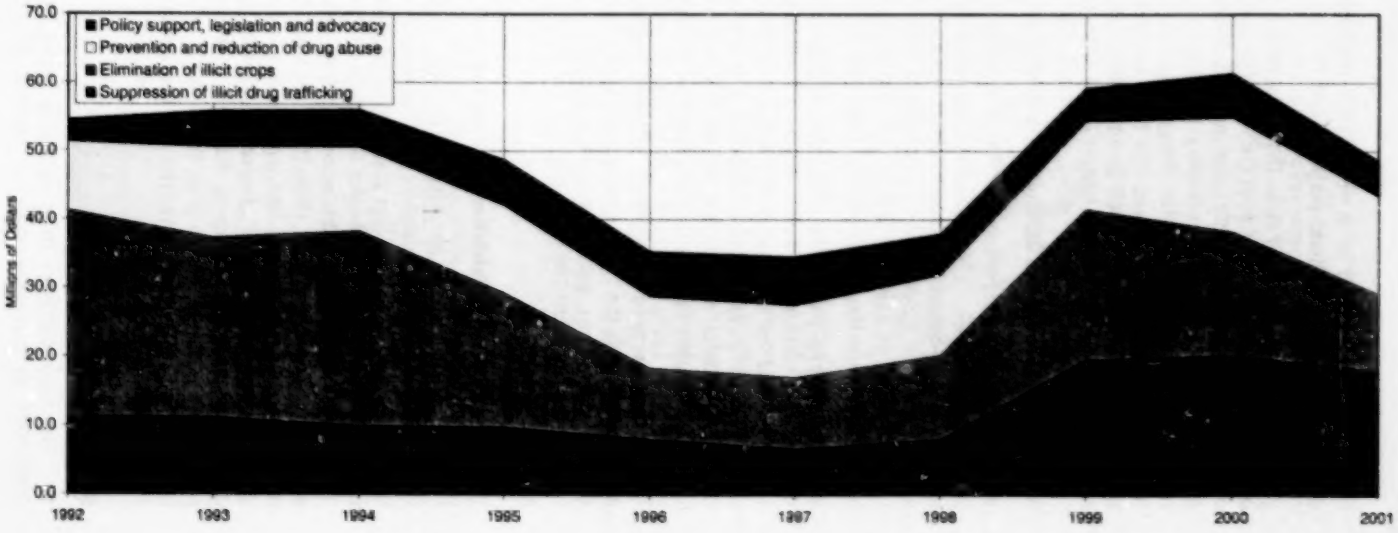


[a] Adjusted for refunds to donors.

[b] Includes adjustments for prior-year expenditures/obligations and provisions for unspent allocations.

Table I.2
Fund of the United Nations International Drug Control Programme: programme by sector 1992-2001
(Millions of United States dollars, net of support costs)

Sector	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*
Policy support, legislation and advocacy	3.3	5.4	5.6	6.8	6.7	7.2	6.1	5.0	6.6	5.3
Prevention and reduction of drug abuse	10.0	13.2	12.2	12.7	10.3	10.4	11.6	12.8	16.7	14.2
Elimination of illicit crops	30.0	26.1	26.3	19.4	10.3	10.3	12.2	21.8	17.9	11.1
Suppression of illicit drug trafficking	11.3	11.2	10.0	9.9	8.1	6.8	8.1	19.7	20.3	18.1
Total	**54.6**	**55.9**	**56.1**	**48.8**	**35.4**	**34.7**	**38.0**	**59.3**	**61.5**	**48.7**



(schedule 5) as a result of more UNDCP implementation and improved delivery, thereby saving scarce general-purpose funds.

5. In addition to the Fund, the Programme is financed under the regular programme budget of the United Nations with a total expenditure of $14.4 million during the biennium 2000-2001 (see note 3). Whereas the Fund supports activities geared towards assisting developing countries in international drug control, the regular budget share of the Programme is concerned mostly with treaty implementation and legal affairs. The Fund accounted for approximately 91 per cent of resources available to UNDCP in 2000-2001, compared with approximately 9 per cent covered under the regular budget of the United Nations.

Statement I. Income and expenditure and changes in fund balances

6. Voluntary contributions decreased in 2000-2001 by $27.7 million, or 23 per cent compared with 1998-1999. Both special-purpose, or earmarked, and general-purpose or non-earmarked, contributions declined in 2000-2001, by $24.8 million and $2.9 million respectively, as compared with 1998-1999. This was offset by a major increase of $19.1 million, or 173 per cent, in cost-sharing contributions due almost entirely to the introduction of large cost-sharing projects in Brazil.

7. The general-purpose fund balance continued to be substantially reduced over the last two bienniums, with expenditure exceeding income by $11.3 million in 1998-1999 and by a further $11.8 million in 2000-2001. The detailed reasons for this decline have been elaborated upon in a note contained in the status reports given to Member States on the implementation of recommendations of the Office of Internal Oversight Services and the Board of Auditors.

8. Special-purpose expenditure exceeded income in 2000-2001 by $2.1 million, as compared with the surplus of income over expenditure of $16.7 million realized in 1998-1999. Thus, special-purpose expenditures were brought more in line with income during 2000-2001, mainly by improving project delivery, as explained above.

Statement II. Assets, liabilities, reserves and fund balances

9. Statement II shows the assets, liabilities, reserves and fund balances as at 31 December 2001. As authorized by the Commission on Narcotic Drugs, reserves have been established at $12 million and consolidated under the general-purpose fund as one operational reserve to protect the financial viability and integrity of the Fund. The purpose and nature of this reserve is fully disclosed in note 15 to the financial statements. Compared with 1998-1999, the total fund balance decreased by $13.9 million, or 20.6 per cent, in line with the request of Member States to reduce high fund balances. However, of greater significance and concern is the $11.0 million decline in the general-purpose balance with no margin available for funding programme activities, which must increasingly rely on future earmarked, voluntary, income. This will severely restrict the operational and financial flexibility of the Programme.

Statement III. Cash flow

10. Net cash outflows from operating activities amounted to $41.1 million in 2000-2001 as compared with net inflows of $5.9 million in 1998-1999. Cash

outflows from operating activities were offset by cash inflows from investing activities amounting to $9.5 million in 2000-2001 as compared with $9.7 million in 1998-1999. Better cash and investment management contributed to improved inflows from investing activities despite periods of falling interest rates during the biennium. The net result of these cash outflows has been a decrease of $31.5 million in total cash, term deposits and investments during the biennium.

Schedules

11. The financial statements are supported by six schedules. Schedule 1 shows the status of voluntary and cost-sharing contributions and shows in a transparent manner income, collections and pledges made by donor countries during the biennium. Schedule 2 shows the status of general-purpose contributions. Total unpaid pledges as at 31 December 2001 under the general-purpose fund amounted to $0.9 million due from 10 countries, representing only 3.7 per cent of total general-purpose contributions for 2000-2001. Schedule 3 shows the status of the approved programme budget and final expenditure. It reflects an overall programme delivery rate of 94 per cent, which is impressive by United Nations standards. Implementation rates were particularly impressive in Western and Central Asia, Central and Eastern Europe and the Near and Middle East (101 per cent), South Asia, East Asia and the Pacific (96 per cent) and Latin America and the Caribbean (94 per cent). Some budgets were unavoidably exceeded in a few projects in Central and Eastern Europe and Western and Central Asia mainly because of the late reporting of expenditure incurred in 1998-1999. This is reflected in the relatively small overexpenditure of $0.4 million for those regions, as shown in schedule 3. Schedule 4 discloses programme expenditure and programme support costs by executing agency and funding source, and schedule 5 gives the status of the approved biennial support budget. As shown in schedule 5, the support budget was underspent by $0.6 million, reflecting mainly unforeseen exchange rate movements. Schedule 6 shows the status of operating funds advanced to agencies as at 31 December 2001.

Notes to the financial statements

12. The financial statements include 18 notes. Note 2 describes the accounting policies applied in the preparation of the statements. The remaining 17 notes provide additional information and clarification of the Programme's financial activities for which the Executive Director has administrative responsibility.

Chapter II
Report of the Board of Auditors

Summary

The Board of Auditors has reviewed the operations of the Fund of the United Nations International Drug Control Programme (UNDCP) and audited its financial statements for the biennium ended 31 December 2001. It has conducted management audits at the Vienna office covering the implementation of the new integrated programme and financial information system (ProFi), recruitment procedures and practices and commitment of the Programme's resources.

The Board's main findings are as follows:

(a) Expenditure on the general-purpose fund exceeded income by $11.8 million, drawing the balance of the general-purpose fund down to $9.8 million. The level of unfunded projects has decreased, but it stands at a still-high amount of $67.9 million; the Board is of the opinion that the financial situation therefore remains a matter of concern;

(b) Some projects have been financed from resources other than those earmarked for that purpose because the expected contributions were not received in full;

(c) UNDCP is accounting for earmarked voluntary contributions on a cash basis, although its funding policy for projects is based on written pledges received;

(d) The UNDCP financial statements do not include all field-level obligations and hence do not disclose fully the exhaustive liabilities of the Programme at year-end;

(e) Two projects under the programme budget are of a support budget nature and should therefore be disclosed and accounted for as such;

(f) A bank account in Brazil is not disclosed in the UNDCP general ledger; its transactions, for some $12.9 million of cost-sharing contributions in 2001, are recorded either indirectly, through transfers made to a UNDCP bank account in New York, or by end-of-year adjustment entries;

(g) UNDCP had not complied with the requirement of the United Nations system accounting standards to disclose liabilities for after-service medical benefits;

(h) Locally sourced audit reports indicated, in a sample of $33.1 million in nationally executed expenditure audited, scope limitations for $3.1 million, or 8 per cent, but the approach, scope and quality of such locally sourced audit reports varied;

(i) The implementation of the new integrated financial and accounting system was delayed. As a result, the financial statements for the biennium 2000-2001 were drawn from a system that still presents insufficient data security and a high risk for input errors.

The Board made recommendations to improve compliance with directives and with accounting and disclosure requirements, to improve the monitoring of nationally executed expenditure and to strengthen efforts to obtain funding.

A list of the main recommendations is provided in paragraph 11.

A. Introduction

1. The Board of Auditors has audited the financial statements of the Fund of the United Nations International Drug Control Programme (UNDCP) for the biennium 2000-2001 in accordance with General Assembly resolution 74 (I) of 7 December 1946. The audit has been conducted in conformity with article XII of the Financial Regulations and Rules of the United Nations and the annex thereto, and the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Those standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the biennium 2000-2001 had been incurred for the purposes approved by the governing bodies; whether income and expenditures were properly classified and recorded in accordance with the Financial Regulations and Rules; and whether the financial statements of UNDCP presented fairly the financial position of the Programme as at 31 December 2001. The audit included a general review of financial systems and internal controls and a test examination of accounting records and other supporting evidence to the extent that the Board considered it necessary to form an opinion on the financial statements.

3. In addition to its audit of the accounts and financial transactions, the Board carried out reviews under article 12.5 of the Financial Regulations and Rules. The reviews concerned primarily the efficiency of financial procedures, the internal financial controls and, in general, the administration and management of UNDCP, including the level of project expenditure and funding projection, the recruitment procedures and practices and the financial information systems.

4. The Board continued its practice of reporting the results of specific audits in management letters containing detailed observations and recommendations to the Administration.

5. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations and conclusions were discussed with the Administration, whose views, where appropriate, have been reflected in the present report.

6. A summary of the Board's main recommendations is contained in paragraph 11. The detailed findings are in paragraphs 13 to 87.

1. Previous recommendations not fully implemented

7. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board has highlighted separately below those recommendations made in its reports relating to the bienniums 1992-1993,[1] 1994-1995[2] and 1996-1997[3] that have not been fully implemented by UNDCP:

---

[1] *Official Records of the General Assembly, Forty-ninth Session, Supplement No. 5J* (A/49/5/Add.9), chap. II.

[2] Ibid., *Fifty-first Session, Supplement No. 5J* (A/51/5/Add.9), chap. II.

[3] Ibid., *Fifty-third Session, Supplement No. 5J* (A/53/5/Add.9), chap. II.

(a) Carry out liaison with the United Nations Development Programme (UNDP) to ensure that audit reports are received for all nationally executed disbursements incurred through UNDP as the executing agency. UNDCP has almost fully implemented this recommendation for the bienniums 1998-1999 and 2000-2001, but not for the biennium 1996-1997.

(b) Adopt a more prudent approach in the planning of its projects, ensuring that projects have a realistic starting date and duration, and sound procurement planning, financial resources and execution arrangements.

The Board has still noted several projects for which the completion deadline had to be postponed, due mainly to funding shortfalls.

8. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board has also reviewed the measures taken by the Administration to implement the recommendations made in its report for the period ended 31 December 1999.[4] Details of the action taken and the comments of the Board are set out in the annex to the present report.

9. The General Assembly, in its resolution 52/212 B of 31 March 1998, accepted the recommendations of the Board of Auditors for improving the implementation of its recommendations approved by the Assembly subject to the provisions contained in the resolution. The Board's proposals, which were transmitted to the Assembly in a note by the Secretary-General (A/52/753, annex), included the following main elements:

(a) The need for specification of timetables for the implementation of recommendations;

(b) The disclosure of office-holders to be held accountable;

(c) The establishment of an effective mechanism to strengthen oversight in regard to the implementation of audit recommendations. Such a mechanism could be in the form of either a special committee comprising senior officials or a focal point for audit and oversight matters.

10. The Board noted that the Administration had generally complied with those requirements.

2. Main recommendations of the present report

11. The Board's main recommendations are that UNDCP:

(a) **Review its administrative and organizational structure to improve its cost-efficiency and effectiveness (para. 16);**

(b) **In conjunction with United Nations Headquarters, review the funding mechanism and targets for end-of-service liabilities in line with other United Nations organizations (para. 20);**

(c) **Closely monitor special-purpose funds that are in deficit to ensure that outstanding amounts are recoverable and that liabilities will be covered in the event that the income pledged is not eventually received (para. 23);**

(d) **Revert to accrual accounting for all contributions (para. 25);**

[4] Ibid., *Fifty-fifth Session, Supplement No. 5I* (A/55/5/Add.9), chap. II.

(e) Liaise with UNDP to update the working arrangement with the aim of reporting all obligations in a timely manner in compliance with paragraph 4 (iii) of the United Nations system accounting standards (para. 37);

(f) Pay closer attention to the classification of expenditure under the programme budget or the support budget (para. 42);

(g) Enter its Brazilian local bank account in the general ledger, register all transactions into and out of the account and ascertain that no other such bank account is operated by field offices (para. 48);

(h) Take more drastic measures to bring unfunded projects to a manageable level, including terminating some projects with poor funding prospects; be prudent in implementing the rule of starting a project when 50 per cent of the funds are secure; and always monitor the launching of new partially funded projects with regard to total commitments made compared with cash available and the duration of the projects (para. 52);

(i) Request its field offices and UNDP to devote special attention to enforcing the yearly deadline for the submission of the audit report (para. 76).

12. The Board's other recommendations are shown in paragraphs 54, 58, 69, 74 and 84.

B. Financial issues

1. Financial position

13. The UNDCP financial statements relate to voluntary funds administered through the Fund of the United Nations International Drug Control Programme for the biennium 2000-2001. UNDCP also receives funding from the regular budget in an amount of $14.4 million, as disclosed in note 3 to the financial statements and reported in the United Nations General Fund financial statements.[5]

14. UNDCP is funded from four sources:

(a) United Nations regular budget resources amounting to $14.4 million, not included in statement I, as detailed in note 3 to the financial statements;

(b) Non-earmarked voluntary contributions ($24 million; see statement I, General-Purpose, voluntary contributions), providing funds for both the support budget and the programme budget;

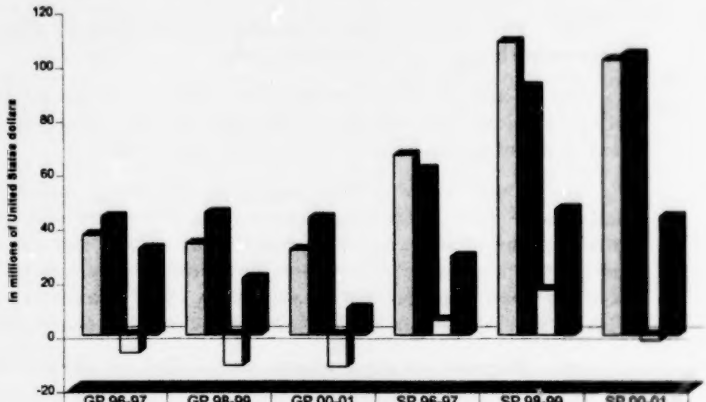
(c) Earmarked voluntary contributions ($98.2 million; see statement I, Special-Purpose, voluntary contributions ($67.9 million) and cost sharing ($30.3 million)), for projects from the programme budget;

(d) $10.8 million in other resources (donations, interest income, miscellaneous).

Graph II.1 reflects the financial position of the UNDCP Fund over the past three bienniums and the level of fund balances for both the general-purpose and special-purpose funds.

[5] Ibid., *Fifty-seventh Session, Supplement No. 5* (A/57/5), vol. I, chap. V.

Graph II.1. Financial position of the Fund of the United Nations International Drug Control Programme for 1996-1997, 1998-1999 and 2000-2001



	GP 96-97	GP 98-99	GP 00-01	SP 96-97	SP 98-99	SP 00-01
Income	36,9	33,6	31,3	66,3	108,3	101,7
Expenditure	43,5	44,9	43,1	60,8	91,6	103,8
Excess/shortfall of income over expenditure	-6,6	-11,3	-11,8	5,5	16,7	-2,1
Fund balances	31,7	20,9	9,8	28,8	46,4	43,6

15. In the biennium 2000-2001, non-earmarked contributions decreased by $2.9 million (10.7 per cent) over the previous biennium. General-purpose fund expenditures decreased by $1.8 million, but still exceeded income, leading to a deficit of $11.8 million, which had to be financed from the general-purpose fund balance. Although the high balance of the fund had once been a concern for Member States (in 1995), it has fallen from $31.7 million in 1997 to $9.8 million as at 31 December 2001 and is expected to be down to the low level of $4 million at the end of 2002. UNDCP is aware that a real financial risk could arise in 2003 if sufficient general-purpose funds are not restored with a return of donor confidence. UNDCP has started to plan cost-efficiency measures for the biennium 2002-2003. A cash-flow analysis of the general-purpose fund is already performed on a quarterly basis. The balance for the special-purpose fund also decreased by $2.8 million owing to a combination of reduced voluntary contribution income of $6.6 million and increased expenditure of $12.2 million.

16. **In a view of the decreased level of general-purpose funds and the shortfall in both general-purpose and special-purpose funding, the Board recommends that UNDCP review its administrative and organizational structure to improve its cost-efficiency and effectiveness.**

17. UNDCP confirmed that, in line with the Commission on Narcotic Drugs budget resolution on a revised organizational structure, this recommendation would be taken into account when revising the fund budget for 2002-2003.

2. United Nations system accounting standards

18. The Board assessed the extent to which the financial statements of UNDCP for the biennium 2000-2001 conformed to the United Nations system accounting

standards. The review indicated that the presentation of the financial statements was generally consistent with the standards, except for the after-service health insurance liabilities, as mentioned below and despite a recommendation by the Board in its previous report. Further to the Board's financial audit, UNDCP agreed to make adjustments in its financial statements.

3. After-service liabilities

19. In its report for the previous biennium, the Board recommended that UNDCP disclose in the notes to the financial statements the value and method of valuation of liability for end-of-service benefits, post-retirement benefits and annual leave in compliance with United Nations system accounting standards. In the financial statements for the biennium 2000-2001, disclosures are made with respect to staff separation costs and repatriation grant accruals. The Board notes that UNDCP has not yet complied with the full requirements of the accounting standards for after-service medical costs. Moreover, there is no provision in the UNDCP financial statements to cover the liability for after-service health insurance.

20. **The Board reiterates its previous recommendation on the disclosure of after-service liabilities, and also recommends that UNDCP review, in conjunction with the United Nations and other funds and programmes, the funding mechanism and targets for end-of-service benefits to provide for the full estimated liability.**

21. UNDCP has agreed to proceed with an actuarial evaluation in order to disclose related liabilities in future financial statements.

4. Accounting for income

22. Special-purpose contributions are treated as funds held in trust, without formal trust fund creation or accounting, but their management is not consistent with paragraph 40 of the Secretary-General's bulletin on the establishment and management of trust funds (ST/SGB/188), which specifies that allotments may be issued only after sufficient contributions have been received to meet the requirements for the initial financial obligations and for any reserves that may be required. The Board identified some expenditures for projects that were insufficiently funded by contributions and therefore were funded from other available resources. These negative special-purpose funds amounted to $7.3 million at year-end, and have been detailed in note 16 to the financial statements at the Board's request. At the end of May 2002, $4.4 million (60 per cent) had been collected, and the actual implementation of concerned projects was in the process of being verified in agreement with donors to secure their funding of the remainder. A portion of the operational reserve was meant to cover any funding gap (see note 15 to the financial statements).

23. **The Board recommended that UNDCP closely monitor special-purpose funds that are in deficit to ensure that outstanding amounts are recoverable and that liabilities will be covered in the event that the income pledged is not eventually received, and UNDCP agreed.**

24. Furthermore, pursuant to paragraph 34 of the United Nations system accounting standards, which states that for voluntary contributions income may be recognized when funds are received, UNDCP accounts for special-purpose income

on a cash basis, while non-earmarked contributions are recognized when formally pledged. The change in the accounting of special-purpose income was made in 1995 in order to better match expenditure with special-purpose pledges — often covering multi-year projects — and to await the receipt of specific funding before starting implementation. In practice, however, new projects can be launched when 50 per cent of their budget is covered by a written pledge.

25. **The Board is of the opinion that accounting for income should be consistent with the funding policy of the Programme, based on pledges rather than on cash collections, and therefore recommends that UNDCP revert to accrual accounting for all contributions.**

26. In the financial statements for the biennium 2000-2001, no modification has been made to the accounting practice, but a column has been added to schedule 1 to disclose outstanding pledges, including earmarked funds. UNDCP has accepted the recommendation, with the provision that it will defer pledged income to future years if it is not related to the current accounting period.

5. Accounting for field-level obligations

27. UNDCP records some of its field-level obligations as they arise or when liabilities are incurred. However, in the case of the United Nations Development Programme, which is entrusted with the execution of 63 per cent of the programme expenditure (out of a total averaging some $50 million a year), UNDCP records obligations only when payments are made. An agreement signed in 1997 between UNDCP and UNDP states that budgets are allotted to the UNDP resident representative. Expenditures within that budget are certified and approved by the resident representative. UNDCP then advances funds to UNDP every quarter. In turn, quarterly status of funds reports are submitted by UNDP reflecting all advances and expenditures against allocations. UNDCP reimburses UNDP for the cost of accounting and financial reporting services, treasury functions and staff administration services with which it was provided.

28. The quarterly expenditure reports and inter-office vouchers transmitted to UNDCP trace only disbursements made on behalf of the Programme. No specific reporting is required on obligations, not even at year-end. In view of the level of UNDP programme delivery — over $30 million a year — this is a matter of major concern, since UNDCP headquarters has no way of evaluating, either during the course of the year or at year-end, the amount of commitments made above the "programme delivery" figure, which reflects only the payments that have been processed.

29. Changes in the yearly delivery levels — for instance the 13.3 per cent increase in programme delivery in 2000-2001 over the previous biennium — may reflect either a trend or simply payments made in the subsequent financial period for obligations and deliveries during the previous financial period that have not been disclosed in that period's financial statements as unliquidated obligations. This could result, on the one hand, in an overstatement in the level of expenditures in one financial period, as they would relate to past commitments for the previous period, or, on the other hand, the understatement of obligations for a current biennium, as they would be raised during the subsequent period. However, the net outcome of such potential transfers may or may not be material.

30. This issue also raises the issue of the reliability of the planning and management of the programme and budget, which, in the absence of proper reporting on obligations, can be based on only approximate figures and estimates. Therefore, a risk exists that expenditures may be in excess of available resources on projects for which commitments, if recorded in a timely manner and in compliance with regulations, would have used up the remaining unencumbered budget.

31. UNDCP acknowledged that the level of unliquidated obligations may be understated and is aware of the risk involved. It has therefore planned to resolve this issue by regularly reporting field office commitments through the new integrated financial and accounting system. With respect to financial management, the implementation of such functionality would be sufficient for budget control and follow-up. The issue of accounting is yet another one to be resolved, since the figures reported by UNDCP field offices through the new information system will only be "management data", UNDP figures being considered as the only reliable accounting data.

32. A detailed review of the situation was performed by the Board on its most recent visit to one field office. The UNDP country office confirmed that no follow-up was made on obligations, especially since a delegation of purchase authority was granted to the UNDCP field office. The latter did record obligations, but only at the time a request for payment was sent to UNDP, and, moreover, sometimes long after the effective liability was incurred.

33. This method leads UNDCP to understate its liabilities for an unknown amount at the end of the biennium. UNDCP is therefore not in a position to record in its financial statements field-level "unliquidated obligations", which should be "expenditures based on firm obligations entered into, but not disbursed, in the financial period", according to note 2 (d) to the financial statements.

34. For the past biennium, as well as for the year 2002, the Board is of the opinion that UNDCP is not in a position to comply with United Nations financial regulation 10.1 (d), which requires the Secretary-General to maintain an internal financial control which shall provide for an effective current examination and/or review of financial transactions in order to ensure the conformity of obligations and expenditures with the appropriations or other financial provisions voted by the General Assembly, or with the purposes and rules related to trust funds and special accounts. This is because it does not monitor nor record in its financial statements all field office unliquidated obligations related to firm obligations entered into.

35. The unliquidated obligations for 2000-2001 — raised outside the operations entrusted to UNDP — have been reviewed by the Board and were valid. But since no unliquidated obligations were disclosed for UNDP-managed operations, UNDCP cannot comply fully with United Nations financial rule 110.9, which states that outstanding obligations retained against appropriations of the previous financial period in accordance with regulation 4.3 shall be reviewed periodically. For an unknown amount up to some $30 million of UNDP operations per year, UNDCP is therefore not complying with paragraph 4 (iii) of the United Nations system accounting standards, which states that the accrual of expenditure in each financial period means that costs are recognized when obligations arise or liabilities are incurred and not when payments are made.

36. The Board is concerned about the absence of a proper monitoring and accounting system to record all UNDP-operated obligations, but is pleased to note that UNDCP has included this issue in the draft UNDP/Office of Drug Control and Crime Prevention working arrangement to be negotiated in July 2002 and signed before the end of the year. This may, if and when it is fully implemented, resolve the issue at the field office level. It will also require rigorous and constant monitoring at UNDCP headquarters.

37. **The Board strongly recommends that UNDCP develop procedures for processing and monitoring obligations in compliance with paragraph 4 (iii) of the United Nations system accounting standards; finalize with UNDP an updated working arrangement with the aim of securing reliable reporting of all obligations in a timely fashion; and promptly terminate the present situation whereby costs are recognized only when payments are made.**

6. Classification of programme expenditure

38. As per UNDCP financial rule 2.2 (e), the support budget covers programme support as well as management and administration. In the biennium 2000-2001, UNDCP expended $2.3 million on a project, recorded as part of the programme budget, for the provision of electronic information services to Member States, namely, the development of the new programme and financial information system, ProFi, which is discussed below. UNDCP charged as project expenditure an additional amount of $0.2 million for programme support. The Board is of the opinion that such expenditures should be charged against the biennial support budget, as recommended by the Advisory Committee on Administrative and Budgetary Questions in January 2000 in its review of the biennial programme budget.

39. Another project aimed at UNDCP image-building, referred to as management and administration in UNDCP financial rule 2.2 (k) and therefore falling under the biennial support budget, is in fact charged to the programme budget.

40. Following up on the comments of the Advisory Committee in its report on the UNDCP final budget for the biennium 2000-2001 and proposed initial budget for the biennium 2002-2003 the Board is concerned that the "arbitrary classification of costs between programme costs and support costs can inflate programme costs, while administrative and management expenditure and programme support can be held artificially low with no apparent justification" (E/CN.7/2001/18, para. 19).

41. The Board is pleased to note that UNDCP has planned to review both "projects" for adequate disclosure in the revised biennial support budget to be submitted to the Commission on Narcotic Drugs in 2003.

42. **The Board recommended that UNDCP classify more rigorously its expenditures under the programme budget or the support budget, and UNDCP agreed.**

7. Control of bank accounts

43. Since 1993, UNDCP has held a bank account in Brazil for receiving cost-sharing contributions for projects with the Government that are implemented by the local office of UNDCP. The initial account, which was opened with one Brazilian bank, was closed in March 2000, following the bank's inability to provide bank

statements on a regular basis. Another bank was therefore selected to operate a similar account for the UNDCP cost-sharing projects in Brazil, starting in April 2000.

44. The amounts transiting through this account totalled $12.1 million in 2000 and $12.9 million in 2001; that is, $25 million was disclosed under cost-sharing voluntary contribution for Brazil in schedule 1 of the financial statements. Those transactions are not booked anywhere in UNDCP, but their end-of-year balance is recorded as an adjustment in the UNDCP closing balance. The income reflects cost-sharing payments received from local partners (the federal police, the National Health Fund, the Ministry of the Budget) on loans coming from the World Bank in Washington, D.C. The amounts received from them in the local bank account are transferred back to a United States bank account with some delays, lasting up to several weeks in 2000, and between one and a few days in 2001. The funds arrive in a UNDCP dollar account in New York, the transactions of which are captured in the United Nations Integrated Management Information System (IMIS).

45. UNDCP headquarters is informed of each deposit to the Brazilian bank account and could thereby check the corresponding transfer to the dollar bank account. The UNDCP field office also submits, on a regular basis, copies of the bank statements, which reflect only deposits, transfers to the New York account and bank charges. However, it is only at the Board's request that a reconciliation of the outgoing transfers from the Brazilian account to the United States dollar account for 2001 was prepared.

46. Neither the initial bank account nor the current one have been reflected in the books of UNDCP at the field or headquarters level. UNDCP is satisfied that the balance of all transactions on the local account is reflected in its accounts through the transfers made to the New York bank account and the subsequent recording in IMIS of the incoming transfer. The balance at year-end of the Brazilian bank account, amounting to $1.1 million, was entered in the UNDCP general ledger as an adjusting entry to the financial statements.

47. The only apparent advantage in operating such a bank account lies in the monitoring of three funding sources through one single channel for all transfers to New York. Part of the amounts, which initially came from Washington, D.C., to Brazil in United States dollars, will come back from New York to Brazil, on the fourth leg of the series of bank and exchange charges, to cover the corresponding expenditure in Brazil through, this time, a UNDP channel. On the remaining balance, which has sometimes exceeded one or several million dollars, mostly in 2000, no interest payment has been received on the account from the Brazilian bank. UNDCP, without conducting a survey in its field offices, has ascertained only that the United Nations Treasurer has not authorized any other such accounts.

48. **The Board recommends that UNDCP enter its Brazilian local bank account in the general ledger and register all transactions into and out of the account, and ascertain from its field offices that no other such bank account is operated by them.**

8. Unfunded projects

49. As indicated by UNDCP, various large and important projects launched with insufficient funding since the biennium 1998-1999 had resulted in the build-up of

unfunded future-year budgets of $89 million at the start of 2001, exposing the Programme to potentially unmanageable financial and operational risks. The level of unfunded projects had been reduced to $67.8 million at the end of 2001, compared with an initial budget for 2002-2003 of $130 million ($7 million in general-purpose funds and $123 million in special-purpose funds).

50. As at January 2002, ongoing projects to be implemented by the end of the biennium 2002-2003 amounted to $416 million, of which $63.8 million related to 2003 and onwards and was unfunded, as was another $4 million targeted for 2002. UNDCP has indicated since then that as at 31 May 2002, the total cost of unfunded projects was $65 million, almost totally for 2003 and beyond, and mostly concentrated on 50 projects.

51. Since the annual project income is targeted at $50 million per year, the level of unfunded projects is still high. It is the legacy of a past of over-programming and of launching projects with insufficient analysis of the funding prospects. This situation has a number of side effects that limit the effectiveness and sap the financial credibility of UNDCP, which is now moving to achieve at least a 50:50 ratio between funded and unfunded projects.

52. **The Board regrets that UNDCP has overextended itself in the past with announcements beyond its means and beyond a realistic level of contributions. The Board commends the efforts of the Programme to improve this position and recommends that it take drastic measures to bring unfunded projects to a manageable level, including, if need be, terminating some projects with poor funding prospects. The Board also recommends that UNDCP be prudent in implementing the rule of starting a project when 50 per cent of funds are secure, and that it always monitor the launching and financing of new partially funded projects.**

9. Write-off of losses of cash, receivables and property

53. No cash write-off has been reported for the biennium 2000-2001. UNDCP wrote off accounts receivable amounting to $375,785 in pledges outstanding. Write-off of headquarters non-expendable equipment is disclosed together with United Nations Office at Vienna write-offs under the United Nations General Fund. However, write-offs of non-expendable equipment at the field level, which amounted to $138,203 gross, have not been disclosed; they include $82,339 worth of equipment that has been or is to be sold.

54. **The Board recommended that UNDCP disclose fully its write-offs as at 2002, including those of field offices and headquarters, together with the value of its non-expendable property (note 17 to the financial statements); UNDCP agreed.**

10. Ex gratia payments

55. No ex gratia payments were reported during the period.

C. Management issues

1. Allegations of impropriety

56. Following up on allegations of impropriety made widely in 2000, the Board undertook in early 2001 a specific review of UNDCP management, while project-related concerns were being simultaneously reviewed by the Office of Internal Oversight Services. The Board's audit did not substantiate allegations of a lack of management integrity, although it led to a number of recommendations. Regarding recruitment, the Board found that there was a need for more consistent application of the competitive process in the recruitment of staff and consultants. Regarding the commitment of resources, the Board found that UNDCP had initiated a number of projects before securing all the funds necessary to see them through to successful completion, as mentioned above. The Board questioned the continued viability of the field office in Bratislava, mentioned below, identified the need to pre-check travel expenditures against entitlements in all cases, including those for the UNDCP Executive Director, and questioned the justification of certain training expenditures.

2. Office in Bratislava

57. In 2001, the Board and the Office of Internal Oversight Services questioned the effectiveness of the UNDCP project office in Bratislava, created in July 2000, and the need for an office so close to UNDCP headquarters (67 kilometres by freeway). The establishment of the office was nevertheless confirmed in November 2001, with full funding ensured by a special-purpose contribution until 2003. Early in 2002, the office was serving only one active project. UNDCP recognizes that the funding prospects for other planned projects may be too optimistic.

58. **The Board reiterates its recommendation that UNDCP reconsider the need for an office so close to its headquarters. The Board acknowledges the Programme's intention to review the viability of the office in the course of 2002.**

3. Programme expenditure incurred by executing agencies

59. The Board issued a qualified opinion on the financial statements for the biennium 1998-1999, as it had for the two previous bienniums, based on the scope limitation for $14.2 million in nationally executed expenditure not supported by audit reports. Recommendations were made to: (a) strengthen efforts to encourage UNDP to secure the necessary audit reports for nationally executed projects; and (b) follow up all audit reports outstanding in respect of the bienniums 1996-1997 and 1998-1999. On 8 March 2001, the Secretary-General transmitted to the members of the General Assembly the Board's comments on action taken by UNDCP pursuant to paragraph 3 of Assembly resolution 55/220 A of 23 December 2000 (A/55/820). The Assembly subsequently accepted, in its resolution 55/220 B of 12 April 2001, the financial report and audited financial statements of UNDCP, and requested UNDCP to adhere to the "plan" it had submitted to the Board to correct the deficiencies that had led to the qualified opinion. The status report on the follow-up actions undertaken was first provided on 27 March 2001 in the form of a response to the report of the Board of Auditors. UNDCP has updated, as mentioned below, the status report as at 28 May 2002.

60. UNDCP relies on executing agencies and implementing partners to carry out its field projects, as reflected in schedule 4: UNDCP itself; United Nations entities;

United Nations specialized agencies; intergovernmental organizations; non-governmental organizations; and Governments — the latter, in fact, through UNDP as an executing agency. For the biennium ended 31 December 2001, UNDCP incurred $110.3 million in programme expenditure, not including support costs, as follows:

(a) $41.2 million by itself but in fact implemented with UNDP administrative assistance;

(b) $35.6 million through agencies ($24.8 million through United Nations entities, $6.7 million through United Nations specialized agencies, $2.4 million through intergovernmental organizations and $1.7 million through non-governmental organizations);

(c) $33.4 million through Governments.

61. The relationship between UNDCP and UNDP is based on a 1997 working arrangement providing that administrative support arrangements with UNDP on nationally executed projects are negotiated on a project-by-project basis and are reflected in the project document. In most cases, UNDCP relies on UNDP to cover UNDCP nationally implemented projects in its nationally executed expenditure audit plan.

62. Monitoring and follow-up of the projects' financial status is performed by UNDCP headquarters through quarterly expenditure reports received from the executing agencies. Advances are made depending on the progress achieved in the implementation of the projects and the expenditure reported. At the end of the biennium, UNDCP relies on audit reports to confirm that the funds advanced have been properly expended on the UNDCP projects.

63. For the first time, in 2001, UNDCP requested its field offices to confirm the level of expenditure incurred in the field and compared the amounts with the expenditures certified by UNDP reports. The net difference between the two reports shows an understatement of field office expenditures by UNDP of $107,178 (as compared with the figures provided to those offices) and an overstatement of project expenditures of $556,663 as at 10 June 2002. Some of those amounts relate to the fact that some transactions would be "in transit" at the end-of-year period or differently accounted for by UNDP and the UNDCP field offices and accounted for on different days and in different periods. However, reconciliation for some of the differences had not been completed six months after the end of 2001. The Board is pleased to note that UNDCP has confirmed that field offices would be requested to make the necessary adjustments.

64. **This difference in the reporting of field expenditures leads the Board to question the level of control over budget and of monitoring and financial reporting at the field level.**

65. For nationally executed expenditures, UNDCP has opted during the biennium 2000-2001 not to follow up on the missing reports for 1996-1997 but to focus instead on the still-uncollected audit reports for the more recent years. The situation has therefore not improved on the $17.9 million nationally executed expenditure dating back to the biennium 1996-1997, but for the nationally executed expenditure for the biennium 1998-1999, UNDCP has succeeded in obtaining audit reports for 37 out of a total of 53 projects, for an amount of $17 million of the $18.3 million

expenditure. By 31 May 2002, the total amount of outstanding audit reports for the government (UNDP-operated) expenditure was therefore:

(a) $17.9 million for the biennium 1996-1997 out of $70.1 million spent on special-purpose funds, of which the same amount of $17.9 million was nationally executed expenditure;

(b) $1.4 million for the biennium 1998-1999 out of $97.3 million in total programme expenditure, of which $18.4 was nationally executed expenditure;

(c) $0.3 million for the biennium 2000-2001 out of $110.2 million in programme expenditure, of which $33.4 was nationally executed expenditure.

66. **The Board is pleased to note that as at 28 May 2002, 99 per cent of the announced reports had been received for biennium 2000-2001 expenditure and that an adequate rate had also been achieved for the biennium 1998-1999. However, the Board notes that such had not been the case for the biennium 1996-1997, when a third of the programmes delivered lacked audit reports, although it might no longer be realistic to try to obtain now the relevant reports.**

Terms of reference and audit scope of nationally executed expenditure auditors

67. UNDCP has adopted the UNDP procedures for national execution. According to the procedures, audits should confirm that resources are being managed in accordance with: (a) the financial regulations, rules, practices and procedures prescribed for the programme or project; (b) the project document and work plan, including activities, management and implementation arrangements, evaluation and reporting provisions; and (c) the requirements for execution in the areas of management, administration and finance.

68. The Board reviewed a sample of nine audit reports for UNDP projects in 2000 for an amount of $10.6 million, and found that the information on the utilization of funds was insufficient in some cases. The inconsistency in the approach and scope of the audits performed resulted in audit reports of different quality. The status of implementation of the prior-year audit recommendations, which would be relevant information, was included in only two reports.

69. **The Board recommended that UNDCP establish standard terms of reference with UNDP for the audit of nationally executed expenditure and ensure that the audit scope and the format of the audit report are consistent; UNDCP has already begun to implement the recommendations.**

Nationally executed expenditure audit plans

70. For the biennium 2000-2001, UNDCP has implemented the Board's recommendations, working closely with UNDP to secure the audit reports. It contracted with local accounting firms for the projects not covered by the UNDP audit plan.

71. The matter of audit reports and audit coverage plans for nationally executed expenditure has also been incorporated by UNDCP in the revised draft working arrangement proposed to UNDP. However, although UNDP instructed its field offices to send their nationally executed expenditure audit plans directly to UNDCP in Vienna, they have never been received, and UNDCP has had to turn to its own

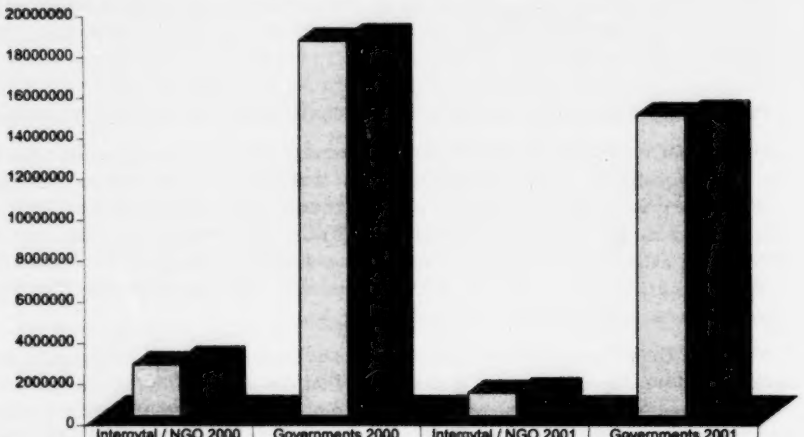
field offices to ensure that all projects are audited through either UNDP or local auditing firms.

Nationally executed expenditure audit coverage

72. The Board is pleased to note that UNDCP has succeeded in increasing the audit coverage of intergovernmental and non-governmental organizations for 2000 and 2001 ($3.7 million audited out of $4.1 million expenditure) and nationally executed expenditure ($33.1 million out of $33.4 million expended), resulting in an overall coverage of 98 per cent for both non-governmental organization and nationally executed expenditure (see graph II.2).

Graph II.2. Nationally executed expenditure and audit coverage

(in United States dollars)



	Intergvtal / NGO 2000	Governments 2000	Intergvtal / NGO 2001	Governments 2001
Audited expenditure	2535563	18362003	1145596	14716869
Expenditure	2801507	18563400	1275680	14857660

73. Local auditors qualified their opinion on nationally executed expenditure incurred during 2000 and 2001 on 10 projects covered by 13 reports (3 projects received 1 yearly report with a qualified opinion). UNDCP also recorded one project executed by a non-governmental organization for 2000 and 2001 for which a qualified opinion was issued by the local auditor. After a review of the audit reports, UNDCP concluded that only nine reports mentioned substantial findings justifying the audit qualification for an amount of $3.1 million, or 8 per cent of the total audited amounts (see table II.1).

Table II.1
Local audit qualifications on nationally executed expenditure, 2000-2001

Country	*Project expenditure with qualified opinion (US dollars)*	*Percentage audited*	*No. of projects*	*Qualified reports*	*Amount qualified (US dollars)*
A	1 313 847	99	6	1	411 380
B	69 814	100	1	1	56 363
C	2 208 691	100	3	2	682 994
D	1 779 986	100	2	3	1 747 325
NGO	176 586	100	1	2	176 586
Total	**5 548 924**	**-**	**13**	**9**	**3 074 648**

74. **The Board recommended that UNDCP review the reasons for qualified opinions from local auditors in order to measure their exact financial impact and undertake appropriate action with the implementing partners; UNDCP agreed.**

Nationally executed expenditure audit reports

75. UNDCP has made new efforts to obtain audit reports in due time. However, in a year-2000 sample of expenditures in respect of seven projects amounting to $10 million, the delay in the submission of audit reports was up to 15 months for three of them. The deadline of 15 March 2002 set in the instructions sent to UNDCP field offices for year-2001 audit reports has not been met. In one country, UNDP declined to provide local auditors who were to review a UNDCP project with the original accounting documentation; the local UNDCP office has nevertheless arranged for a complete audit, which has yet to be submitted.

76. **The Board recommends that UNDCP request its field offices and UNDP to devote special attention to enforcing the yearly deadline for the submission of the audit report.**

4. Information and communication technology: financial and accounting systems

77. UNDCP uses a financial information management system. However, this is not an accounting application; it is only a project pledge tracking and project management system. The financial statements are drawn up annually in April from headquarters accounts kept by the United Nations Office at Vienna in the central United Nations Integrated Management Information System. The trial balance (accounts balance) is entered manually on a spreadsheet in summary form. Data from the implementing agencies' statements in respect of their expenditure and various adjustments (including such adjustment as was necessary to incorporate the balance of a bank account mentioned above) are then entered manually. This spreadsheet presents the aggregated balances for each UNDCP account.

78. The Board's review has confirmed that the financial information management system provides a low level of logical security, with no access protection or audit trail. The accounting process is based on numerous stages of collecting disparate information from a range of sources, with information entered manually on

spreadsheets, a procedure that is by no means secure. Only one person at UNDCP has sufficient knowledge of the process, and there are no efficient controls whatsoever. Although the sample tests did not reveal significant errors in the data, the Board could place only low reliance on the data due to the lack of data security and of a strong audit trail.

79. UNDCP is fully aware of the issue, and began to develop its own state-of-the-art enterprise resource planning system project, called ProFi, in 1999. The first phase is to provide a reliable and adequate accounting application, including reports to donors on the financial status of projects and funding. The second phase of ProFi was to computerize activities management and reporting functionalities, but has not so far been able to be funded.

80. UNDCP selected a stand-alone enterprise resource planning system to be adapted to its requirements. The development was carried out between April 2000 and March 2001. The agreement with the contractor was based on a bilateral commitment to the workload to be provided by each party. UNDCP failed to deliver its full share and transferred part of it to the contractor, which resulted in using up the full budget before the project could be completed. As the application was rolled out in the production environment in March 2001, further debugging and reconciliation work was required. For lack of internal resources, the operations were not completed before April 2002, with the help of an external consultant.

81. In April 2001, training courses on the Web interface enabling direct input on field-level commitments had been provided to field-level users, although as at April 2002 this function was still not used because of organizational and communication issues to be addressed. Following these numerous shortcomings and delays in project implementation, UNDCP had recently taken action to create a management team of senior staff members from each division to periodically receive progress reports, review the status of ProFi implementation and discuss any problems.

82. **The Board welcomes the decision to adapt the management structure of the project to meet the project's requirements.**

83. To date, the project is more than one year behind schedule. As to its cost, the Executive Director in 1999 approved two contracts amounting to $1.6 million, while the rest was to be absorbed within existing resources, according to UNDCP. Contrary to standard practice, at the start of the project there was no comprehensive budget with which actual expenditure could be compared. By early 2002, the cost was estimated at $2.5 million for the budget/accounting and reporting phase, not including the "existing resources". The project module for phase 2 remains to be implemented because of a lack of funding. Data discrepancies have been identified between the existing and new systems, which should therefore not replace the former system before full consistency is obtained.

84. **The Board recommended that UNDCP maintain the two accounting systems in parallel operation for at least another six months until it has verified that the new system fully provides accurate data, and UNDCP agreed.**

5. Cases of fraud and presumptive fraud

85. UNDCP reported to the Board two cases of fraud involving a total sum of $43,912 during the biennium 2000-2001. One case was identified in a UNDCP regional office and is still under scrutiny by the Office of Internal Oversight

Services. In the other case, discovered at a regional office, three staff members have been suspended. Other cases of presumptive fraud are still under investigation.

86. The Board was informed that in 2000 funding could not cover the completion of one project owing to the unauthorized use of funds allotted to a local association. All activities were suspended while the project was audited by the Office of Internal Oversight Services, which concluded that the fraud was due to inadequate internal accounting control procedures. UNDCP explained that thenceforth it would sign off on all financial undertakings and receive bank details and statements. The amount of $32,000 that was diverted could be recovered by undertaking the remaining project activities, at no additional cost to UNDCP.

87. In another country, a project headed by a director from the local Ministry of Health was implemented. The management structure comprised a management committee, a programme manager and a liaison officer from each implementing agency. Due to the late set-up of the management structure, no segregation of duties or adequate controls over disbursements was in place. An audit performed by the country's Auditor-General concluded that some $12,000 had been used for other purposes. Almost half of that amount has been recovered so far. The person involved in this case has been dismissed by the Ministry of Health, and all payments are now approved by the UNDCP office before they are issued, pending the settlement of discrepancies.

D. Acknowledgement

88. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended by the Executive Director and the staff of the United Nations International Drug Control Programme during its audit.

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

(*Signed*) Guillermo N. **Carague**
Chairman, Philippine Commission on Audit

(*Signed*) François **Logerot**
First President of the Court of Accounts of France

27 June 2002

Annex

Follow-up on action taken to implement the recommendations of the Board of Auditors in its report for the biennium ended 31 December 1999[a]

The Board has followed up on the action taken by the United Nations International Drug Control Programme to implement the Board's recommendations made in the context of its report for the biennium ended 31 December 1999. Table A.1 summarizes the status of implementation of all the previous recommendations, while table A.2 details specifically those recommendations not implemented and those recommendations under implementation that require comment.

A total of 14 recommendations were made in the audit for the biennium 1998-1999. Of the 14, 6 (43 per cent) were implemented, 6 (43 per cent) were under implementation and 2 (14 per cent) were not fully implemented.

Table A.1
Summary of status of implementation of recommendations for the biennium ended 31 December 1999

Topic	*Implemented*	*Under implementation*	*Not implemented*	*Total*
A. Financial issues				
Accounts and financial reporting	-	paras. 11 (a) and (b) and 31	para. 11 (c)	-
Cash management	para. 11 (d)	-	-	-
Financial management and control systems	-	para. 29	-	-
Non-expendable property	para. 33	-	-	-
Subtotal				
Number	**2**	**4**	**1**	**7**
Percentage	**28.6**	**57.1**	**14.3**	-
B. Management issues				
Programme management	para. 11 (e)	para. 11 (f) and (g)	-	-
Procurement	para. 11 (h), (i) and (k)	-	para. 11 (j)	-
Subtotal				
Number	**4**	**2**	**1**	**7**
Percentage	**57.1**	**28.6**	**14.3**	-
Total				
Number	**6**	**6**	**2**	**14**
Percentage	**43**	**43**	**14**	-

[a] *Official Records of the General Assembly, Fifty-fifth Session, Supplement No. 5I* (A/55/5/Add.9), chap. II.

Table A.2
Details on previous recommendations under implementation or not implemented for the biennium 1998-1999

Component/area of concern	*Recommendation*	*Specific management action/comments*	*Comments of the Board*
Accounts and financial reporting, para. 11 (a)	UNDCP should disclose in the notes to the financial statements the value and method of valuation of liability for end-of-service benefits, post-retirement benefits and annual leave, in compliance with the United Nations accounting standards.	For 2000-2001, UNDCP has not calculated the value of liabilities related to after-service medical costs (contrary to United Nations system accounting standard 57), but it confirmed that it would be done for the next biennium. Similarly, the United Nations Office at Vienna had not invoiced expenditure incurred for such liabilities. For 2002, the United Nations Office at Vienna has budgeted $1.5 million, 12 per cent concerning Office for Drug Control and Crime Prevention staff (i.e. $180,000).	Under implementation. The Board will keep this matter under review. (Refer to paras. 19-21 of the present report.)
Financial management and control systems, para. 11 (b)	UNDCP should strengthen its efforts to encourage UNDP to secure the necessary audit reports for nationally executed projects, and, where appropriate, extend the arrangements whereby nationally executed projects are audited by local accountancy firms.	The Board acknowledges the progress made in the collection of audit reports through closer monitoring with UNDP and specific arrangements made with local accountancy firms. The timeliness of the submission of audit reports still remains an issue: reports on $13 million in nationally executed expenditures had still not been received at the time of our audit in April 2002. In June 2002, 99 per cent of this expenditure had been covered by audit reports.	Under implementation.
Financial management and control systems, para. 11 (c)	UNDCP should follow up, in liaison with UNDP, all audit reports outstanding in respect of the 1996-1997 and 1998-1999 bienniums.	No follow-up has been done on 1996-1997 audit reports in order to concentrate on the collection of 1998-1999 reports. Final coverage for nationally executed expenditure in 1998-1999 is 92 per cent ($16.9 million out of $18.3 million total expenditure).	Not implemented.

Component/area of concern	*Recommendation*	*Specific management action/comments*	*Comments of the Board*
Cash management, para. 11 (d)	UNDCP should ensure that bank reconciliations are regularly and promptly undertaken, both in headquarters and in field offices, and that long-outstanding items are investigated.	Bank reconciliations have been made regularly, and no significant long-outstanding items were noted in our review of these reconciliations. Entry has been made for the balance of the Brazilian bank account. This matter was mentioned by the Board as not having been accounted for in the accounts as at 31 December 1999, prior to their request.	Implemented, but a Brazil account issue remains. (Refer to paras. 43-48 of the present report.)
Financial management and control systems, para. 29	UNDCP should take follow-up action to clear long-outstanding balances.	Out of the three long-outstanding items identified in the Board's previous report, two of them (Gilead Church for $175,080 and UNFPA for $8,433) are still outstanding in the financial statements as at 31 December 2001.	Under implementation, but during its follow-up audit, the Board noted that long-outstanding advances had not all been cleared.
Computer operations and data-processing systems, para. 31	The new UNDCP accounting system should capture field office expenditures on a more timely basis in order to improve overall monitoring of project expenditures.	The Board was informed that the ProFi system had not been built up to record field expenditure but rather field-level commitments for management purposes. The implementation of the whole project has been delayed and, although the Web interface allowing field users to enter their commitments directly into the system is technically ready, this solution is still not effective.	Under implementation, but the Board noted that little progress had been made so far in this important area.
Programme management, para. 11 (f)	UNDCP should develop central guidance on planning that sets clear standards and promotes greater consistency and comparability between planning documents.	UNDCP has issued several management instructions to streamline the preparation of documents and the planning of projects. The process of amending and improving planning documents and country or regional plans is still under way.	Under implementation. The Board will keep this matter under review.

Component/area of concern	*Recommendation*	*Specific management action/comments*	*Comments of the Board*
Programme management, para. 11 (g)	All future annual reports should provide an analysis of actual results and outputs compared with the objectives set out in the relevant country or regional plans.	As mentioned above, management instructions have been issued providing a format for annual reporting on projects and activities. Most of the monitoring on the results and output is performed at the project level.	Under implementation, but during its follow-up audit, the Board noted that the situation was not yet satisfactory. The Board will keep this matter under review.
Procurement, para. 11 (i)	UNDCP should require departments to prepare procurement plans for submission to the relevant procurement units.	No procurement plan as such has been prepared and transmitted to the United Nations Office at Vienna for procurement action. Nevertheless, annual requirements are transmitted to the services in charge and benefit from the prices negotiated by the Office on information technology equipment, for example.	Implemented. The Board will keep this matter under review.
Procurement, para. 11 (j)	UNDCP should issue clear guidelines to field offices on the procurement procedures to be followed and the delegated limits that apply.	In the case of one field office, the threshold for delegated authority has been negotiated in the field and for the concerned country office only, therefore the delegated limits might differ from one office to the other. UNDP guidelines for procurement apply in general, UNDP being the main executing agency.	Not implemented. The Board will keep this matter under review.

Chapter III
Audit opinion

We have audited the accompanying financial statements, comprising statements I to III and the supporting notes of the Fund of the United Nations International Drug Control Programme for the biennium ended 31 December 2001. The financial statements are the responsibility of the Executive Director. Our responsibility is to express an opinion on them based on our audit.

We conducted our audit in accordance with the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, and as considered by the auditor to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Executive Director, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, these financial statements present fairly, in all significant respects, the financial position as at 31 December 2001 and the results of operations and cash flows for the period then ended in accordance with the accounting policies set out in note 2 to the financial statements, which were applied on a basis consistent with that of the preceding financial period.

Without qualifying our opinion stated above, we draw attention to the lack of procedures ensuring completeness and timeliness in the recording of field obligations.

Further, in our opinion, the transactions of the United Nations International Drug Control Programme that we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and Rules of the United Nations and legislative authority.

In accordance with article XII of the Financial Regulations, we have also issued a long-form report on our audit of the financial statements.

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

(*Signed*) Guillermo N. **Carague**
Chairman, Philippine Commission on Audit

(*Signed*) François **Logerot**
First President of the Court of Accounts of France

27 June 2002

Chapter IV
Certification of the financial statements

30 April 2002

I certify that the appended financial statements of the Fund of the United Nations International Drug Control Programme, numbered I to III, the notes and the supporting schedules are correct based on our records and certified reports from other executing agencies.

(*Signed*) Steinar B. **Bjorasson**
Officer in Charge
United Nations International Drug Control Programme

Chapter V
Financial statements for the biennium ended 31 December 2001

Abbreviations used in the financial statements

ACFR	Association of Casa Famiglia Rosetta
CAMH	Centre for Addiction and Mental Health
CCLEC	Caribbean Customs Law Enforcement Council
CCSA	Canadian Centre on Substance Abuse
CE	Council of Europe
CICP	Centre for International Crime Prevention
CIJ	Centros de Integración Juvenil
DESA	Department of Economic and Social Affairs
ECSWPR	European Centre for Social Welfare Policy and Research
ESCAP	Economic and Social Commission for Asia and the Pacific
FAO	Food and Agriculture Organization of the United Nations
GILEAD	Gilead Church
ICPO	Interpol International Criminal Police Organization/Interpol
IFND	International Federation of NGOs against Drug Abuse
ILO	International Labour Organization
IMO	International Maritime Organization
NCA	Norwegian Church Aid
NGO/CONS	The Consortium
OAU	Organization of African Unity
RFHL	Swedish Association for Help and Assistance to Drug Abusers
SAPS	South African Police Service Dog School
SESI	Social Service Industry (Brazil)
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
UNICRI	United Nations Interregional Crime and Justice Research Institute
UNIDO	United Nations Industrial Development Organization
UNOPS	United Nations Office for Project Services
UNV	United Nations Volunteers

UPU	Universal Postal Union
UWI	University of the West Indies
WC	World Concern
WCO	World Customs Organization
WHO	World Health Organization
WSB	World Scout Bureau

Statement I
Income and expenditure and changes in fund balances for the biennium 2000-2001 ended 31 December 2001
(United States dollars)

	Note	General-purpose: Support	General-purpose: Programme	Special-purpose: Programme	Total	Total 1998-1999
INCOME						
Voluntary contributions (Schedule 1)		24,022,669	-	67,932,107	91,954,776	119,637,245
Cost-sharing contributions (Schedule 1)		-	-	30,300,416	30,300,416	11,123,298
Support cost income (Schedule 4)	2(m)	7,206,999	-	-	7,206,999	6,189,163
Public donations	4	133	-	1,303,734	1,303,867	1,913,224
Interest income	5	3,076,080	4,199,070	2,197,048	9,472,198	9,071,982
Miscellaneous income	6	19,416	-	-	19,416	145,589
Consolidation elimination - support cost income	2(m)	(7,206,999)	-	-	(7,206,999)	(6,189,163)
Total income		27,118,298	4,199,070	101,733,305	133,050,673	141,891,338
EXPENDITURE						
Programme budget (Schedule 3)		-	15,470,189	94,759,610	110,229,799	97,300,672
Programme support cost:						
Agencies (Schedule 4)		-	527,313	3,030,180	3,557,493	4,054,847
UNDCP (Schedule 4)		-	1,150,240	6,056,759	7,206,999	6,189,163
Biennial support budget (Schedule 5)		33,175,057	-	-	33,175,057	35,162,718
Consolidation elimination - support cost charges	2(m)	(6,056,759)	(1,150,240)	-	(7,206,999)	(6,189,163)
Total expenditure		27,118,298	15,997,502	103,846,549	146,962,349	136,518,137
EXCESS OF EXPENDITURE OVER INCOME		-	(11,798,432)	(2,113,244)	(13,911,676)	5,373,201
Other changes in fund balances:						
Savings on prior year's obligations		-	754,552	-	754,552	836,798
Refund to donors	2(n)	-	-	(347,129)	(347,129)	(96,845)
Interfund adjustments	7	-	107,952	(107,952)	-	-
Net change in provision in provision for allocations	8	-	(95,743)	(250,626)	(346,369)	682,500
Net changes in fund balances		-	(11,031,671)	(2,818,951)	(13,850,622)	6,795,654
Fund balances, 1 January		-	20,866,632	46,405,410	67,272,042	60,476,388
FUND BALANCES, 31 DECEMBER	9	-	9,834,961	43,586,459	53,421,420	67,272,042

Statement II
Assets, liabilities and reserves and fund balances as at 31 December 2001
(United States dollars)

	Note	General-purpose	Special-purpose	Total	Total 1999
ASSETS					
Cash and term deposits	10	4,242,787	9,257,477	13,500,264	74,098,622
Investments	11	15,235,086	33,616,379	48,851,465	19,750,442
Accounts receivable:					
Voluntary contributions receivable (Schedule 2)		940,942	-	940,942	1,069,828
Accrued interest		12,578	-	12,578	748,624
Other accounts receivable and deferred charges	12	462,884	-	462,884	942,651
Other assets:					
Operating funds advanced to executing agencies (Schedule 6)		3,337,636	8,770,138	12,107,774	9,429,761
TOTAL ASSETS		24,231,913	51,643,994	75,875,907	106,039,928
LIABILITIES					
Unliquidated obligations	13	793,709	4,382,315	5,176,015	15,277,823
Accounts payable:					
Due to United Nations General Fund		33,054	-	33,054	735,148
Other accounts payable	14	1,570,198	256,946	1,827,144	2,239,384
Other liabilities:					
Operating funds due to executing agencies (Schedule 6)		-	3,418,274	3,418,274	8,515,531
Total liabilities		2,396,952	8,057,535	10,454,487	26,767,886
RESERVES AND FUND BALANCES					
Reserves					
Operational reserve	15	12,000,000	-	12,000,000	12,000,000
		12,000,000	-	12,000,000	12,000,000
Fund balances	9				
Ongoing support and project commitments		9,834,961	43,586,459	53,421,420	65,424,277
Balance available for future programme activities		-	-	-	1,847,765
	16	9,834,961	43,586,459	53,421,420	67,272,042
Total reserves and fund balances		21,834,961	43,586,459	65,421,420	79,272,042
TOTAL LIABILITIES, RESERVES AND FUND BALANCES		24,231,913	51,643,994	75,875,907	106,039,928

Statement III
Cash flow for the biennium 2000-2001 ended 31 December 2001

	General-purpose	Special-purpose	Total	Total 1998-1999
CASH FLOWS FROM OPERATING ACTIVITIES				
Net excess (shortfall) of income over expenditure	(11,798,432)	(2,113,244)	(13,911,676)	5,373,201
Decrease/(increase) in net operating funds advanced to executing agencies	684,902	(8,460,172)	(7,775,270)	11,694,042
Decrease/(increase) in contributions receivable	128,886	-	128,886	5,120,032
Decrease/(increase) in other accounts receivable	479,767	-	479,767	(264,637)
(Decrease) in deferred income	-	-	-	(15,511,180)
(Decrease)/increase in unliquidated obligations	(2,299,206)	(7,802,602)	(10,101,808)	8,985,875
Increase/ (decrease) in other accounts payable	(662,866)	250,626	(412,240)	(455,312)
Less: interest income	(7,275,150)	(2,197,048)	(9,472,198)	(9,071,982)
Net cash (outflow) from operating activities	(20,742,099)	(20,322,440)	(41,064,539)	5,870,039
CASH FLOWS FROM INVESTING ACTIVITIES				
(Decrease) in amount due to United Nations general fund	(702,094)	-	(702,094)	(105,959)
(Increase) Decrease in accrued interest	736,046	-	736,046	717,024
Add: Interest income	7,275,150	2,197,048	9,472,198	9,071,982
Net cash inflow from investing activities	7,309,102	2,197,048	9,506,150	9,683,051
CASH FLOWS FROM OTHER SOURCES				
Savings on prior biennium's obligations	754,552	-	754,552	836,798
Refund to donors	-	(347,129)	(347,129)	(96,845)
Inter-fund adjustments	107,952	(107,952)	-	-
Decrease (Increase) in provision for allocations	(95,743)	(250,626)	(346,369)	682,500
Net cash (outflow) from other sources	766,761	(705,707)	61,054	1,422,453
NET INCREASE (DECREASE) IN CASH, TERM DEPOSITS AND INVESTMENTS	(12,666,236)	(18,831,099)	(31,497,335)	16,975,543
CASH AND TERM DEPOSITS, 1 JANUARY 2000	32,144,109	61,704,955	93,849,064	76,873,521
CASH,TERM DEPOSITS AND INVESTMENTS, 31 DECEMBER 2001	19,477,873	42,873,856	62,351,729	93,849,064

Schedule 1

Status of voluntary contributions for the biennium ended 31 December 2001

(United States dollars)

Contributor	INCOME					Total collections in 2000-2001	Total pledges in 2000-2001	Total pledges outstanding, 31 Dec 2001
	General-purpose			Special-purpose				
	Pledges			Collections in 2000-2001	TOTAL			
	Received	Outstanding 31 Dec 2001	Subtotal					
Antigua and Barbuda	-	-	-	-	-	-	60,000	60,000
Argentina	-	(300,000)	(300,000)	-	(300,000)	-	-	-
Australia	666,217	-	666,217	262,240	928,457	928,457	928,457	-
Austria	175,284	152,810	328,094	506,616	834,710	755,085	1,350,771	595,686
Bahamas	1,000	1,000	2,000	-	2,000	1,000	2,000	1,000
Bangladesh	1,000	1,000	2,000	-	2,000	1,000	2,000	1,000
Barbados	2,000	-	2,000	-	2,000	2,000	2,000	-
Belgium	621,864	-	621,864	114,134	735,998	735,998	735,998	-
Bolivia	-	4,000	4,000	-	4,000	5,000	4,000	4,000
Cameroon	-	1,532	1,532	-	1,532	-	1,532	1,358
Canada	292,208	284,810	577,018	1,432,781	2,009,799	2,028,874	1,950,844	949,367
China	235,259	14,933	250,192	-	250,192	235,259	250,192	14,933
Colombia	93,000	-	93,000	-	93,000	93,000	93,000	-
Czech Republic	108,698	-	108,698	-	108,698	99,523	108,698	-
Denmark	333,732	-	333,732	778,708	1,112,440	1,112,440	1,112,440	-
Egypt	-	1,000	1,000	-	1,000	-	1,000	1,000
European Commission	-	-	-	2,614,956	2,614,956	2,614,956	2,789,521	7,566,867
Finland	637,989	25,000	662,989	100,000	762,989	740,926	1,102,989	465,000
France	205,529	-	205,529	2,397,850	2,603,379	2,603,379	2,603,379	-
Germany	575,826	-	575,826	2,589,332	3,165,158	3,165,158	1,587,976	668,276
Greece	63,473	-	63,473	-	63,473	68,473	63,473	-
Grenada	511	-	511	-	511	511	511	-
India	60,000	60,000	120,000	-	120,000	59,976	120,000	60,000
Ireland	229,720	-	229,720	-	229,720	229,720	229,720	-
Italy	7,969,868	-	7,969,868	14,863,023	22,832,891	22,866,189	22,866,189	-
Japan	3,741,000	-	3,741,000	3,066,995	6,807,995	6,807,995	6,758,000	-

Contributor	INCOME					Total collections in 2000-2001	Total pledges in 2000-2001	Total pledges outstanding 31 Dec 2001
	General-purpose			Special-purpose				
	Pledges			Collections in 2000-2001	TOTAL			
	Received	Outstanding 31 Dec 2001	Subtotal					
Kuwait	-	10,000	10,000	-	10,000	5,000	10,000	15,000
Laos	1,000	1,000	2,000	-	2,000	1,982	2,000	1,000
Lebanon	-	-	-	-	-	-	-	5,000
Liechtenstein	-	-	-	12,048	12,048	12,048	12,048	-
Luxembourg	225,935	-	225,935	1,777,200	2,003,135	2,077,826	1,394,635	710,600
Madagascar	-	(2,600)	(2,600)	-	(2,600)	-	-	-
Malaysia	20,000	20,000	40,000	-	40,000	40,000	40,000	20,000
Malta	245	-	245	-	245	245	245	-
Mexico	200,000	-	200,000	-	200,000	200,000	200,000	-
Monaco	20,000	-	20,000	-	20,000	20,000	20,000	-
Morocco	3,000	3,000	6,000	-	6,000	3,000	6,000	3,000
Netherlands	1,377,790	-	1,377,790	2,808,753	4,186,543	4,186,543	4,186,543	-
New Zealand	79,435	-	79,435	-	79,435	79,435	79,435	-
Norway	-	-	-	2,960,593	2,960,593	2,960,593	3,321,036	2,931,591
Pakistan	1,964	-	1,964	-	1,964	1,893	1,964	-
Panama	7,200	-	7,200	-	7,200	7,200	7,200	-
Peru	-	-	-	-	-	10,000	-	-
Portugal	25,000	-	25,000	-	25,000	25,000	25,000	-
Republic of Korea	107,400	100,000	207,400	-	207,400	107,400	207,400	100,000
Romania	-	-	-	-	-	-	-	71
Saudi Arabia	100,000	-	100,000	-	100,000	100,000	100,000	-
Singapore	10,000	-	10,000	-	10,000	10,000	10,000	-
Slovak Republic	-	-	-	60,000	60,000	60,000	60,000	-
Slovenia	-	1,274	1,274	-	1,274	568	1,274	960
South Africa	6,828	-	6,828	-	6,828	12,488	6,828	-
Spain	326,277	-	326,277	761,310	1,087,587	1,087,586	1,087,586	-
Sri Lanka	7,500	-	7,500	-	7,500	7,500	7,500	-
Sweden	1,912,630	-	1,912,630	6,660,775 a/	8,573,405	8,573,405	8,364,970	281,688
Switzerland	262,661	-	262,661	845,855	1,108,516	1,116,854	1,140,227	60,606
Thailand	20,000	-	20,000	-	20,000	20,000	20,000	-

Contributor	INCOME						Total collections in 2000-2001	Total pledges in 2000-2001	Total pledges outstanding 31 Dec 2001
	General-purpose			Special-purpose					
	Pledges			Collections in 2000-2001		TOTAL			
	Received	Outstanding 31 Dec 2001	Subtotal						
Tunisia	5,726	-	5,726	-		5,726	5,726	5,726	-
Turkey	250,000	250,000	500,000	-		500,000	500,000	500,000	250,000
United Arab Emirates	5,560	-	5,560	35,990		41,550	41,550	41,550	-
United Kingdom of Great Britain and Northern Ireland	203,581	-	203,581	11,090,405	a/	11,293,986	11,293,986	7,555,787	1,131,400
United States of America	2,200,000	-	2,200,000	12,192,543		14,392,543	14,392,543	29,156,810	34,539,267
Total voluntary	23,393,910	628,759	24,022,669	67,932,107		91,954,776	92,115,290	102,296,454	50,438,670
Cost-sharing									
Bolivia	-	-	-	1,546,042		1,546,042	1,546,042	357,900	667,059
Brazil	-	-	-	24,973,623		24,973,623	24,973,623	169,927	23,682,008
Colombia	-	-	-	1,104,009		1,104,009	1,104,009	-	1,464,427
Dominican Republic	-	-	-	100,000		100,000	100,000	200,000	100,000
Peru	-	-	-	343,817		343,817	343,817	396,297	52,480
UNAIDS	-	-	-	2,232,925		2,232,925	2,232,925	2,331,755	238,080
Total cost-sharing	-	-	-	30,300,416		30,300,416	30,300,416	3,455,879	26,204,054

a/ Special-purpose income includes transfer of unspent balance from trust fund for the international campaign against drug abuse and illicit trafficking as per General Assembly resolution 46/185, Part C, XVI, Section 22. The unspent balance maintained by the United Nations Headquarters was transferred to the Fund of UNDCP after obtaining the consent of donors (Sweden $226,004 and the United Kingdom $462,101).

Schedule 2
Status of general-purpose contributions receivable as at 31 December 2001
(United States dollars)

Contributor	Unpaid pledges as at 1 January 2000 (a)	Income: Pledges for 2000-2001 and adjustment of prior pledges (b)	Total contributions collected during 2000-2001 (c)	Loss/(gain) on exchange (d)	Unpaid pledges as at 31 December 2001 (a+b-c-d)
Argentina	300,000	(300,000)	-	-	-
Australia	-	666,217	666,217	-	-
Austria	73,185	328,094	248,469	-	152,810
Bahamas	-	2,000	1,000	-	1,000
Bangladesh	-	2,000	1,000	-	1,000
Barbados	-	2,000	2,000	-	-
Belgium	-	621,864	621,864	-	-
Bolivia	5,000	4,000	5,000	-	4,000
Cameroon	-	1,532	-	174	1,358
Canada	306,122	577,018	596,093	2,237	284,810
China	-	250,192	235,259	-	14,933
Colombia	-	93,000	93,000	-	-
Czech Republic	-	108,698	99,523	9,175	-
Denmark	-	333,732	333,732	-	-
Egypt	-	1,000	-	-	1,000
Finland	-	662,989	640,926	(2,937)	25,000
France	-	205,529	205,529	-	-
Germany	-	575,826	575,826	-	-
Greece	5,000	63,473	68,473	-	-
Grenada	-	511	511	-	-
India	-	120,000	59,976	24	60,000
Ireland	-	229,720	229,720	-	-
Italy	-	7,969,868	8,003,166	(33,298)	-
Japan	-	3,741,000	3,741,000	-	-
Kuwait	10,000	10,000	5,000	-	15,000
Laos	1,000	2,000	1,982	18	1,000
Lebanon	5,000	-	-	-	5,000
Luxembourg	74,892	225,935	300,626	201	-

Contributor	Unpaid pledges as at 1 January 2000 (a)	Income: Pledges for 2000-2001 and adjustment of prior pledges (b)	Total contributions collected during 2000-2001 (c)	Loss/(gain) on exchange (d)	Unpaid pledges as at 31 December 2001 (a+b-c-d)
Madagascar	2,600	(2,600)	-	-	-
Malaysia	20,000	40,000	40,000	-	20,000
Malta	-	245	245	-	-
Mexico	-	200,000	200,000	-	-
Monaco	-	20,000	20,000	-	-
Morocco	-	6,000	3,000	-	3,000
Netherlands	-	1,377,790	1,377,790	-	-
New Zealand	-	79,435	79,435	-	-
Pakistan	-	1,964	1,893	71	-
Panama	-	7,200	7,200	-	-
Peru	10,000	-	10,000	-	-
Portugal	-	25,000	25,000	-	-
Republic of Korea	-	207,400	107,400	-	100,000
Romania	124	-	-	53	71
Saudi Arabia	-	100,000	100,000	-	-
Singapore	-	10,000	10,000	-	-
Slovak Republic	-	-	-	-	-
Slovenia	669	1,274	568	415	960
South Africa	6,236	6,828	12,488	576	-
Spain	-	326,277	326,277	-	-
Sri Lanka	-	7,500	7,500	-	-
Sweden	-	1,912,630	1,912,630	-	-
Switzerland	-	262,661	270,998	(8,337)	-
Thailand	-	20,000	20,000	-	-
Tunisia	-	5,726	5,726	-	-
Turkey	250,000	500,000	500,000	-	250,000
United Arab Emirates	-	5,560	5,560	-	-
United Kingdom of Great Britain and Northern Ireland	-	203,581	203,581	-	-
United States of America	-	2,200,000	2,200,000	-	-
Total	**1,069,828**	**24,822,669**	**24,183,183**	**(31,628)**	**940,942**

Schedule 3

Status of the Programme Budget for the biennium 2000-2001

(United States Dollars)

Activity	*General-purpose*			*Special-purpose*			*Total*		
	Budget 2000-2001	*Expenditure 2000-2001*	*Balance*	*Budget 2000-2001*	*Expenditure 2000-2001*	*Balance*	*Budget 2000-2001*	*Expenditure 2000-2001*	*Balance*
By region									
Global	5,809,900	4,530,755	1,279,145	11,153,400	10,067,973	1,085,427	16,963,300	14,598,728	2,364,572
Africa	500,900	338,326	162,574	5,118,100	4,189,107	928,993	5,619,000	4,527,433	1,091,567
Central and Eastern Europe, West and Central Asia, Near and Middle East	5,930,700	6,712,767	(782,067)	21,744,700	21,381,851	362,849	27,675,400	28,094,618	(419,218)
South Asia	855,600	482,499	373,101	809,300	832,742	(23,442)	1,664,900	1,315,241	349,659
East Asia and the Pacific	456,400	331,828	124,572	15,989,300	15,459,603	529,697	16,445,700	15,791,431	654,269
Latin America and the Caribbean	3,808,100	3,074,014	734,086	45,179,600	42,828,334	2,351,266	48,987,700	45,902,348	3,085,352
Total	17,361,600	15,470,189	1,891,411	99,994,400	94,759,610	5,234,790	117,356,000	110,229,799	7,126,201
By sector									
Policy support, legislation and advocacy	5,754,000	4,757,327	996,673	7,352,500	7,163,506	188,994	13,106,500	11,920,833	1,185,667
Prevention and reduction of drug abuse	1,839,300	1,361,755	477,545	31,201,600	29,572,825	1,628,775	33,040,900	30,934,580	2,106,320
Elimination of illicit crops	3,620,500	2,991,438	629,062	27,889,000	26,008,324	1,880,676	31,509,500	28,999,762	2,509,738
Suppression of illicit trafficking	6,147,800	6,359,669	(211,869)	33,551,400	32,014,955	1,536,445	39,699,200	38,374,624	1,324,576
Total	17,361,600	15,470,189	1,891,411	99,994,500	94,759,610	5,234,890	117,356,100	110,229,799	7,126,301
By execution modality									
UNDCP	7,351,600	6,648,996	702,604	38,011,400	34,554,322	3,457,078	45,363,000	41,203,318	4,159,682
Agency	7,223,000	5,334,579	1,888,421	30,799,700	30,270,842	528,858	38,022,700	35,605,421	2,417,279
National	2,787,000	3,486,614	(699,614)	31,183,400	29,934,446	1,248,954	33,970,400	33,421,060	549,340
Total	17,361,600	15,470,189	1,891,411	99,994,500	94,759,610	5,234,890	117,356,100	110,229,799	7,126,301
By Location									
Headquarters	6,496,600	5,421,154	1,075,446	14,266,200	12,734,144	1,532,056	20,762,800	18,155,298	2,607,502
Country Level	10,865,000	10,049,035	815,965	85,728,300	82,025,466	3,702,834	96,593,300	92,074,501	4,518,799
Total	17,361,600	15,470,189	1,891,411	99,994,500	94,759,610	5,234,890	117,356,100	110,229,799	7,126,301

Schedule 4

Programme expenditure and programme support costs by executing agencies and source of funds for the biennium ended 31 December 2001

(United States dollars)

	Programme			Programme support cost									
				Agency				UNDCP				Total	
	General-purpose	Special-purpose	Total	General-purpose	Special-purpose	Total	%	General-purpose	Special-purpose	Total	%	Amount	%
A: UNDCP Implementation													
UNDCP	6,648,996	34,554,322	41,203,318	59,263	375,221	434,484	*1.1 a/*	755,381	3,905,062	4,660,443	*11.3*	5,094,927	*12.4*
B: Agency Implementation													
United Nations entities													
ESCAP	-	1,182	1,182	-	154	154	*13.0*	-	-	-	-	154	*13.0*
UNICRI	204,961	2,879	207,840	20,496	288	20,784	*10.0*	6,149	86	6,235	*3.0*	27,019	*13.0*
UNOPS	4,997,531	19,450,653	24,448,184	320,948	1,458,800	1,779,748	*7.3*	328,959	984,480	1,313,439	*5.4*	3,093,187	*12.7*
UNV	-	157,475	157,475	-	4,725	4,725	*3.0*	-	-	-	-	4,725	*3.0*
United Nations Specialized agencies													
FAO	-	3,848,133	3,848,133	-	500,257	500,257	*13.0*	-	-	-	-	500,257	*13.0*
ILO	104,736	747,258	851,994	13,616	97,144	110,760	*13.0*	-	-	-	-	110,760	*13.0*
IMO	-	24,666	24,666	-	3,206	3,206	*13.0*	-	-	-	-	3,206	*13.0*
UNESCO	-	(4,781)	(4,781)	-	(621)	(621)	*13.0*	-	-	-	-	(621)	*13.0*
UNICEF	-	272,268	272,268	-	21,782	21,782	*8.0*	-	13,614	13,614	*5.0*	35,396	*13.0*
UNIDO	(218,572)	1,035,170	816,598	4,504	46,582	51,086	*6.3*	(32,909)	87,804	54,895	*6.7*	105,981	*13.0*
UPU	-	2,783	2,783	-	181	181	*6.5*	-	181	181	*6.5*	362	*13.0*
WHO	-	901,892	901,892	-	117,245	117,245	*13.0*	-	-	-	-	117,245	*13.0*
Intergovernmental organizations													
CCLEC	104	931,316	931,420	-	-	-	-	14	121,070	121,084	*13.0*	121,084	*13.0*
CE - PG	-	50,998	50,998	-	3,570	3,570	*7.0*	-	3,060	3,060	*6.0*	6,630	*13.0*
ECSWPR	-	140,826	140,826	-	18,308	18,308	*13.0*	-	-	-	-	18,308	*13.0*
ICPO	-	863,237	863,237	-	30,213	30,213	*3.5*	-	34,529	34,529	*4.0*	64,742	*7.5*
OAU	-	176,586	176,586	-	7,035	7,035	*4.0*	-	15,893	15,893	*9.0*	22,928	*13.0*
WCO	-	236,889	236,889	-	16,978	16,978	*7.2*	-	13,886	13,886	*5.9*	30,864	*13.0*

	Programme			Programme support cost									
				Agency				UNDCP				Total	
	General-purpose	Special-purpose	Total	General-purpose	Special-purpose	Total	%	General-purpose	Special-purpose	Total	%	Amount	%
Non-governmental organizations													
ACFR	-	611,434	611,434	-	30,572	30,572	5.0	-	48,915	48,915	8.0	79,487	13.0
CAMH	12,573	46,306	58,879	1,634	6,020	7,654	13.0	-	-	-	-	7,654	13.0
CH	-	152,464	152,464	-	4,606	4,606	3.0	-	15,246	15,246	10.0	19,852	13.0
NCA	68,811	299,189	368,000	4,469	19,431	23,900	6.5	4,469	19,431	23,900	6.5	47,800	13.0
NGO/CORE	-	56,131	56,131	-	2,807	2,807	5.0	-	4,491	4,491	8.0	7,298	13.0
RFHL	91	-	91	-	-	-	-	-	-	-	-	-	-
SAPS	-	8,651	8,651	-	-	-	-	-	1,125	1,125	13.0	1,125	13.0
SHH	164,344	2,329	166,673	-	-	-	-	21,364	303	21,667	13.0	21,667	13.0
World Concern	-	202,989	202,989	-	12,179	12,179	6.0	-	14,209	14,209	7.0	26,388	13.0
WSB	-	51,919	51,919	-	4,153	4,153	8.0	-	2,596	2,596	5.0	6,749	13.0
Total B	5,334,579	30,270,842	35,605,421	365,667	2,405,615	2,771,282	7.8	328,046	1,380,919	1,708,965	4.8	4,480,247	12.6
C: National Implementation													
Government	3,480,614	29,934,446	33,421,060	102,383	249,344	351,727	1.1	66,813	770,778	837,591	2.5	1,189,318	3.6
Total C	3,480,614	29,934,446	33,421,060	102,383	249,344	351,727	1.1	66,813	770,778	837,591	2.5	1,189,318	3.6
Total A, B and C	15,470,189	94,759,610	110,229,799	527,313	3,030,180	3,557,493	3.2	1,150,240	6,056,759	7,206,999	6.5	10,764,492	9.8

a/ Projects executed by UNDCP Field Offices get some administrative assistance from UNDP. In some cases, therefore, a small percentage of support cost is shared with UNDP to compensate for its support.

Schedule 5

Status of the biennial support budget for the biennium ended 31 December 2001

(United States dollars)

Item	*Expenditure 1998-1999*	*Budget 2000-2001*	*Expenditure 2000 - 2001*			*Unencumbered balance 31 December 2001*
			Disbursements	*Unliquidated obligations*	*Total*	
By appropriation line						
Programme support						
Country level	19,201,039	18,651,800	18,249,714	212,884	18,462,598	189,202
Headquarters	6,866,007	6,212,300	5,733,582	106,977	5,840,559	371,741
Subtotal	26,067,046	24,864,100	23,983,296	319,861	24,303,157	560,943
Management and Administration	9,095,672	8,920,800	8,398,061	473,839	8,871,900	48,900
Total	35,162,718	33,784,900	32,381,357	793,700	33,175,057	609,843
By location						
Country level	19,201,039	18,651,800	18,249,714	212,884	18,462,598	189,202
Headquarters	15,961,679	15,133,100	14,131,643	580,816	14,712,459	420,641
Total	35,162,718	33,784,900	32,381,357	793,700	33,175,057	609,843
By object of expenditure						
Staff and other personnel costs	25,659,452	24,300,400	23,608,974	517,926	24,126,900	173,500
Travel	1,670,177	1,479,100	1,401,198	52,372	1,453,570	25,530
Contractual services	254,555	218,200	133,426	38,699	172,125	46,075
Operating expenses	4,165,929	4,192,500	4,028,925	30,654	4,059,579	132,921
Acquisitions	1,674,457	1,704,000	1,493,849	35,563	1,529,412	174,588
Fellowships, grants, other	1,738,148	1,890,700	1,714,985	118,486	1,833,471	57,229
Total	35,162,718	33,784,900	32,381,357	793,700	33,175,057	609,843
By funding source						
Special-purpose funds (Schedule 4 and Note 2(m))	5,101,081	6,576,600	6,056,759	-	6,056,759	519,841
General-purpose funds	30,061,637	27,208,300	26,324,598	793,700	27,118,298	90,002
Total	35,162,718	33,784,900	32,381,357	793,700	33,175,057	609,843

Schedule 6

Status of operating funds advanced to agencies as at 31 December 2001

(United States dollars)

Agencies		Operating funds with agencies 1 January 2000 (a)	Advances (b)	Miscellaneous income (c)	Disbursements (d)	Operating funds with agencies 31 December 2001 (a+b+c-d)	Operating funds due to agencies 31 December 2001 (a+b+c-d)
United Nations entities	CICP	29,513	(14,730)	-	-	14,783	-
	DESA	37,393	-	-	-	37,393	-
	ESCAP	(47,327)	70,950	7,594	(28,423)	2,794	-
	UNDP/National	3,321,108	34,213,885	-	(33,772,787)	3,762,206	-
	UNDP/Other	(2,701,291)	32,938,309	-	(25,860,285)	4,376,733	-
	UNDP/WA *	4,810,996	8,535,994	-	(10,009,354)	3,337,636	-
	UNFPA	8,433	-	-	-	8,433	-
	UNICEF	(337,680)	562,601	(21)	(294,050)	-	(69,150)
	UNICRI	(62,388)	361,500	(2,316)	(267,574)	29,222	-
	UNOPS	(3,029,553)	34,537,235	2,575	(33,982,595)	-	(2,472,338)
	UNV	162,200	-	-	(162,200)	-	-
United Nations specialized agencies	FAO	(1,925,086)	6,162,200	(30,098)	(4,348,390)	-	(141,374)
	ILO	(199,120)	684,000	9,811	(962,754)	-	(468,063)
	IMO	34,635	-	-	(27,872)	6,763	-
	UNESCO	(7,651)	45,300	-	(25,227)	12,422	-
	UNIDO	(50,786)	1,271,650	12,852	(1,209,614)	24,102	-
	WHO	77,438	634,450	13,035	(976,489)	-	(251,566)
Inter-governmental organizations	CCLEC	89,045	833,150	-	(912,433)	9,762	-
	CE	43,838	5,866	4,864	(54,568)	-	-
	ECSWPR	25,493	133,925	1,059	(160,522)	-	(45)

Schedule 6

Status of operating funds advanced to agencies as at 31 December 2001

(United States dollars)

Agencies		Operating funds with agencies 1 January 2000 (a)	Advances (b)	Miscellaneous income (c)	Disbursements (d)	Operating funds with agencies 31 December 2001 (a+b+c-d)	Operating funds due to agencies 31 December 2001 (a+b+c-d)
	ICPO	215,523	685,700	-	(893,450)	7,773	-
	OAU	78,377	225,100	-	(183,621)	119,856	-
	WCO	108,937	149,950	(50)	(254,567)	4,270	-
Non-governmental organizations	ACFR	(843)	641,650	-	(642,006)	-	(1,199)
	CAMH	57,861	21,400	(1,220)	(92,282)	-	(14,241)
	CCSA	(327)	327	-	-	-	-
	CIJ	(71)	156,450	691	(157,070)	-	-
	NGO/CONS	37,501	21,470	(33)	(58,938)	-	-
	GILEAD	175,080	-	-	-	175,080	-
	IFND	86,643	-	-	-	86,643	-
	NCA	(66,898)	458,500	-	(391,900)	-	(298)
	RFHL	6,460	(456)	72	(6,076)	-	-
	SAPS	21,469	-	6,578	(28,047)	-	-
	SESI	(44,786)	224,350	(12,891)	(166,673)	-	-
	UWI	(24,443)	24,443	-	-	-	-
	UPU	-	83,000	-	(2,964)	80,036	-
	WC	(17,281)	232,500	49	(215,169)	99	-
	WSB	1,818	43,750	18,786	(52,586)	11,768	-
Total		**914,230**	**123,944,419**	**31,337**	**(116,280,486)**	**12,107,774**	**(3,418,274)**

WA= Working arrangement

Notes to the financial statements

Note 1
Statement of aims

The United Nations International Drug Control Programme (UNDCP) aims to ensure coherent and effective action by the international community against drug abuse and illicit drug trafficking. It supports the development of international norms and standards; ensures harmonized action by the United Nations system; facilitates the exchange of information, dialogue and cooperation among governments at the subregional, regional and global levels; and provides technical advice and assistance to Governments in support of a balanced approach targeting both illicit supply and demand.

Note 2
Accounting policies

The significant accounting policies of the Fund of the United Nations International Drug Control Programme are set out below.

(a) Rules and procedures. The accounts of the Fund are maintained in accordance with the Financial Regulations and Rules of the United Nations and its own financial rules and in conformity with the United Nations system accounting standards, as recognized by the General Assembly in its resolution 48/216 C of 23 December 1993 and subsequent revisions.

(b) Accounting convention. The accounts are prepared on a historical cost basis, modified to the extent that the cost of all property acquired is charged as an expense in the year of purchase. The financial period is a biennium and consists of two consecutive calendar years.

(c) Contingent liabilities. United Nations accounting standard 57 on end-of-service and post-retirement benefits requires that related liabilities should be provided for in the accounts to the extent required by the financial policies of the organization. Insofar as such liabilities are not fully provided for, appropriate disclosure should be made in the notes to the financial statements and the total estimated liabilities quantified where possible.

UNDCP has not specifically recognized liabilities for after-service health insurance costs that will be owed when staff members leave the Organization. Such payments are budgeted for in the support budget and in the programme budget, and the actual costs incurred in each financial period are reported as current expenditures. In order to obtain a better understanding of the financial magnitude of the Organization's liability, further assessment will be made of post-retirement health insurance. If the contingency is found to be material, it will be disclosed in the notes to the financial statements for the biennium 2002-2003.

The separation from service of staff members of the Fund of UNDCP is carried out in accordance with United Nations staff rule 109. Separation benefits under this rule cover terminal indemnity, repatriation grant, commutation of accrued annual leave up to a maximum of 60 days and other related expenses. The provision for repatriation grant entitlements is calculated on the basis of 8 per cent of net base pay for all personnel funded by the UNDCP Fund (see note 14). Under that Fund, any contingent liabilities for project staff are budgeted for under the specific projects

that the staff members are charged to. For all other separation entitlements not specifically provided for, a contingent amount was included in the operational reserve (see note 15) on the basis of the application of staff rule 109 to 194 posts authorized in the initial support budget for 1996-1997. As per the final support budget for 2000-2001, there were 203 authorized posts. In view of the small variation between posts authorized in 1996-1997 and 2000-2001 and taking into account vacancy levels, the current contingency calculation shown in note 15 does not require revision. Regarding post-retirement benefits, UNDCP participates in the United Nations Joint Staff Pension Fund (see note 18), in whose financial statements the details of those benefits are disclosed.

(d) Unliquidated obligations. Unliquidated obligations are expenditures based on firm obligations entered into but not disbursed in the financial period. Unliquidated obligations for the current period in respect of all technical cooperation activities remain valid for 12 months following the end of the period to which they relate.

(e) Special-purpose contributions. Special-purpose contributions are recorded as income when received. For large special-purpose contributions received in advance, income is deferred to future periods, as otherwise their exceptional size and nature would materially distort operational results and fund balances.

(f) General-purpose contributions. General-purpose contributions are recorded on the basis of written pledges. Pledges are recorded against a written commitment by a prospective donor to pay a monetary contribution at a specified time or times. Unpaid pledges are cancelled when a written request for cancellation is received. In addition, unpaid pledges older than five years are cancelled when no written confirmation is received in response to reminders.

(g) Miscellaneous income. Refunds of expenditures charged to prior financial periods, net gains on exchange and proceeds from the sale of surplus property are credited to miscellaneous income.

(h) Interest income. Interest income is based only on amounts received and accrued from cash, term deposits and investments relating to the financial period. Interest due from cash, term deposits and investments made in the financial period but not maturing until future periods is recorded as accounts receivable.

(i) General-purpose and special-purpose funds. General-purpose funds arise from income that is not earmarked for a specific purpose or project. They are used to fund the approved biennial support budget as well as those programme activities not funded by special-purpose funds. Special-purpose funds arise from income that is earmarked for specific programmes, projects or purposes within broader geographic and thematic sectors.

(j) Cash and term deposits. Funds on deposit in interest-bearing bank accounts, time deposits and call accounts that are available immediately or will be maturing within 12 months of the period's end date are shown in note 10 separately from term deposits maturing after 12months from the period's end date. All term deposits are placed in accordance with the United Nations investment policies and guidelines.

(k) Investments. In line with United Nations investment policies and guidelines, temporary surpluses are placed in securities such as AAA-rated bonds or

notes based on cash-flow requirements and taking into account investment bids received at the time of placement. Since July 2000, surplus funds in excess of current needs are placed in the United Nations investment pool (for offices away from Headquarters) and managed through investment pooling. Details of these investments, shown at cost, are disclosed in note 11. Long-term investments with a book value of $37,991,615 had a market value of $38,560,404 as at 31 December 2001.

(l) Translation of currencies. The financial statements of the Fund are presented in United States dollars, which is the currency best suited to its operations. As per United Nations accounting standards, transactions in currencies other than dollars are recorded in dollars by applying the United Nations operational rate of exchange at the time of the transaction. The policy for translating balance-sheet items maintained in other currencies is also in accordance with United Nations accounting standards. For monetary items (i.e., money held, assets, liabilities and any other balances to be received or paid in fixed or determinable amounts of money) and non-monetary items carried at fair value in accounts maintained in other currencies, the translation into United States dollars is done at the applicable United Nations rate of exchange in effect as at the date of the financial statements. Non-monetary items carried at historical cost in other currencies are translated using the United Nations operational rate of exchange at the date of the transaction. On the closing of the accounts at the end of each financial period, if the balance of the exchange accounts reflects a net loss on exchange, it is debited to the budgetary account. If there is a net gain, it is credited to miscellaneous income.

(m) Programme support costs. In accordance with United Nations practice and as authorized by its governing body, the Commission on Narcotic Drugs, UNDCP charges a programme support rate of up to 13 per cent for programme/project execution. In case the programme or project is shared by UNDCP and an associated agency, programme support charges are also accordingly shared by the two organizations with a combined amount not exceeding 13 per cent. For nationally executed programmes and projects, a maximum of 5 per cent is charged for programme support. Programme support costs paid during the biennium to agencies under this arrangement are charged to programme expenditure in the financial statements, as they constitute an outflow of funds from the Organization. Programme support costs retained by UNDCP under this arrangement are not charged to programme expenditure, since they have been incurred under the biennial support budget. These are shown both as support-cost income and support-cost charges and are offset by a consolidation elimination (see statement I). Full details of the amounts retained by UNDCP are disclosed by funding source in schedule 4. The amount retained out of programme activities funded by special-purpose income, however, is shown as funding part of the support budget, being the effective recovery of those costs through the programme support arrangement and amounting to $6,056,759 for 2000-2001 ($5,101,081 for 1998-1999).

(n) Refunds to donors. In accordance with terms and conditions stipulated in funding agreements, donors are refunded amounts in excess of the requirements of specific projects that are completed.

Note 3
Regular budget expenditure

The total expenditure of $146,962,349 reported in statement I does not include the following amounts for 2000-2001 financed from the regular budget of the United Nations (in United States dollars):

Expenditure	*2000-2001*	*1998-1999*
Staff and other personnel costs	11 623 119	11 959 951
Travel on official business	1 285 789	1 045 175
Contractual services	805 636	817 330
General operating expenses	236 233	261 853
Acquisitions	406 505	254 048
Fellowships, grants and other	87 608	86 009
Total	**14 444 890**	**14 424 366**

Note 4
Public donations

Donor	*2000-2001*	*1998-1999*
Aga Khan Development Network	-	50 000
Caribbean Development Bank	64 883	-
Drug Abuse Prevention Centre, Japan	622 024	731 287
Ford Foundation	35 000	-
Human Security Trust Fund	200 000	-
Mr. Komuro, Japan	91 288	-
Organization of American States	190 951	-
Social Service Industry (SESI), Brazil	-	859 402
Society of Japanese Pharmacopoeia	-	34 040
UNICEF, Egypt	9 800	-
United Nations Association, Scotland	133	-
United Nations Fund for International Partnerships	-	150 000
Universal Postal Union	49 988	-
World Food Programme, Egypt	9 800	-
Sponsors of the First National Drug Abuse Prevention Campaign, Brazil	-	18 495
United Nations Office for the Coordination of Humanitarian Assistance to Afghanistan	30 000	70 000
Total	**1 383 867**	**1 913 224**

Note 5
Interest income

Total interest earned in 2000-2001 amounted to $9,472,198 (1998-1999: $9,071,982). Special-purpose and general-purpose funds are not invested separately. Until 1995, the total interest income from investments was apportioned between general-purpose and special-purpose funds in accordance with the ratio of their respective average fund balance. However, the amount of interest apportioned to the special-purpose fund needs to be assigned more precisely to the individual trust funds comprising the fund balance. In addition, not every trust fund agreement specifies a requirement to accrue interest or specially account for it. From 1996 onwards, therefore, where donor funding arrangements specifically require accruing interest or where donors have otherwise indicated the desire for an accounting of accumulated interest, the relevant special-purpose trust fund has been credited interest over the period of its use and on the balance outstanding at the end of 2001. On this basis, for 2000-2001, interest income of $2,197,048 is assigned to special-purpose trust funds as per specific donor requirements. The balance of $7,275,150 in interest earned for 2000-2001 is assigned to the general-purpose fund.

Note 6
Miscellaneous income

Total miscellaneous income in 2000-2001 amounted to (in United States dollars):

Miscellaneous income	*2000-2001*	*1998-1999*
Airline refunds	-	43 811
Sale proceeds from		
Drug identification kits	1 844	93 121
T-shirts	-	924
World Drug Reports	-	496
Reimbursement for installation of national database system	-	3 000
United Nations Day Tambola	-	3 400
Proceeds from drug prevention day	-	837
Net gain on exchange	17 572	-
Total	**19 416**	**145 589**

Note 7
Inter-fund adjustments

Adjustments between funds included unspent special-purpose funds reallocated by the donor to general-purpose funds as follows (in United States dollars):

General-purpose fund	*Special-purpose fund*
107 952	(107 952)

Note 8
Provisions

The provision against the fund balance for unspent project budget allocations covering 2000-2001 activities has been adjusted by $84,626 to increase the provision from $172,300 to match unspent allocations amounting to $256,946 at the end of 2001, as shown under accounts payable (note 14). Total expenditures for 2000-2001 against those allocations have not so far been reported by executing agencies, and therefore a provision is maintained in the accounts. In addition, provision has been made against the UNDCP fund balance for operating fund balances with executing agencies that are unlikely to be recovered amounting to $261,723 (note 14).

Note 9
Fund balances

Fund balances represent the unexpended resources of UNDCP as at 31 December 2001. The net changes in these balances during 2000-2001 and future commitments against them are summarized below (in United States dollars):

Changes in fund balances	*General-purpose fund*	*Special-purpose fund*	*Total*
Fund balance as at 1 January 2000 committed under the 2000-2001 programme budget[a]	19 018 867	46 405 410	65 424 277
Balance as at 1 January 2001 available for future programme activities	1 847 765	-	1 847 765
Total fund balance, 1 January 2000	**20 866 632**	**46 405 410**	**67 272 042**
Net changes in 2000-2001 (statement I)	(11 031 671)	(2 818 951)	(13 850 622)
Total fund balance, 31 December 2001	**9 834 961**	**43 586 459**	**53 421 420**
Ongoing support and project commitments	9 834 961	43 586 459	53 421 420
Balance as at 31 December 2001 available for future programme activities	-	-	-

[a] Initial 2000-2001 budget as per document E/CN.7/2001/9.

Note 10
Cash and term deposits

Cash included (in United States dollars):

Cash and term deposits	*At 31 December 2001*	*At 31 December 1999*
Interest-bearing bank deposits maturing within 12 months	13 500 264	64 098 622
Interest-bearing bank deposits maturing between 12 and 24 months	-	10 000 000
Total	**13 500 264**	**74 098 622**

Note 11
Investments

Investments included (in United States dollars):

Investments	*At 31 December 2001*	*At 31 December 1999*
Discounted notes maturing within 12 months, at purchase cost	-	19 750 442
United Nations investment pool for offices away from Headquarters	48 851 465	-
Total	**48 851 465**	**19 750 442**

Note 12
Other accounts receivable

Accounts receivable included (in United States dollars):

Accounts receivable	*At 31 December 2001*	*At 31 December 1999*
Education grant advances	371 248	354 458
Travel advances	-	90 622
Salary advances	34 369	94 500
Other receivables and deferred charges	57 267	403 071
Total	**462 884**	**942 651**

Note 13
Unliquidated obligations

Unliquidated obligations comprised the following (in United States dollars):

Unliquidated obligations	*At 31 December 2001*	*At 31 December 1999*
Programme budget	793 700	12 184 917
Biennial support budget	4 382 315	3 092 906
Total	**5 176 015**	**15 277 823**

Note 14
Provisions and other accounts payable

Accounts payable included (in United States dollars):

Accounts payable	*At 31 December 2001*	*At 31 December 1999*
Repatriation grant accruals (note 2 (c))	831 780	505 274
Provision for allocations (note 8)	256 946	172 300
Expert payroll and other field expenses	86 003	1 293 031
Provision for operating balances with executing agencies that are unlikely to be recovered (note 8)	261 723	-
Appendix D compensation accruals	-	26 846
Unapplied deposits	-	63 807
Miscellaneous	390 692	178 126
Total	**1 827 144**	**2 239 384**

Note 15
Operational reserve

Until 1995, an operating reserve of 15 per cent of annual expenditures (adjusted for programme support costs) was maintained amounting to $9,486,700 (general-purpose fund: $3,446,200, and special-purpose fund: $6,040,500) as at 31 December 1995. Upon the recommendation of the Advisory Committee on Administrative and Budgetary Questions, this arrangement was reviewed in 1996 and, in the light of actual reserve requirements, the Commission on Narcotic Drugs, as the governing body of UNDCP, approved the creation instead of a consolidated reserve of $12 million ($11.5 million from the general-purpose fund balance and $0.5 million from the programme support reserve). The operational reserve level has been maintained at $12 million during 2000-2001, with no movement in the reserve.

The operational reserve is estimated to cover the following contingencies (in United States dollars):

Contingency	*Headquarters*	*Country operations*	*Total*
Staff separation cost estimates as per the accounting policy on contingent liabilities (note 2 (c))	5 500 000	3 800 000	9 300 000
Less: Repatriation grant accruals already provided for (note 14)	(831 780)	-	(831 780)
Subtotal	**4 668 220**	**3 800 000**	**8 468 220**
Unforeseen shortfalls, uneven cash flows, unplanned costs and other final contingencies			3 531 780
Total			**12 000 000**

Note 16
Special-purpose fund balance

As per UNDCP financial rule 6.5, special-purpose contributions to project activities are treated as funds held in trust. The application of those funds to specific project activities is reported separately to donors. The consolidated balance shown in statement II, therefore, consists of a series of trust funds. In some cases the balances are negative where expenditures exceed collections and any accrued interest. These negative balances have been funded out of working capital as per UNDCP financial rule 6.3 and are covered by outstanding special-purpose pledges. The details of the negative balances as at 31 December 2001 are shown below (in United States dollars):

Donor	*Project*	*Fund balance*	*Value of outstanding pledges*
Austria	BOL/E07	(300 000)	300 000
Bolivia	BOL/C23, D80	(288 673)	427 812
Canada	GLO/E89, 900, B79, CUB/F02, COL/C81, DOM/E64, RAS/C51, CAR/E63	(576 433)	664 557
Colombia	COL/426, 636, 926, B91	(1 112 176)	1 464 427
Dominican Republic	DOM/E64	(17 934)	100 000
European Commission	EGY/518, 751, 771, BGD/779-781, IND/808, BHA/907, LEB/763, 813, TRI/910, CAR/857, LAO/866, RAS/B38, 938, CAR/B16, B95, C34, C01, C49, MOZ/C47, RER/D41, C38, RAF/E13, E14	(2 628 950)	4 990 400
Luxembourg	RER/D41	(84 100)	84 100
Peru	PER/D96	(32 480)	32 480
United Kingdom of Great Britain and Northern Ireland	PAK/D86	(390 625)	1 029 400
Joint United Nations Programme on HIV/AIDS	GLO/E89, IND/E40	(91 780)	238 080
United States of America	BOL/C23, COL/F31, AFG/F06, BIH/C15, BOL/D73, CAM/D43, COL/C58, DOM/E64, GLO/583, B79, B83, E59, F44, F45, F46, LAO/F12, 13, PAK/840, D86, RAF/E13, E14, RAS/C25, C51, F34, F41, RER/E29, F07, F23, VIE/E77	(1 787 402)	10 439 267
Total negative fund balance		**(7 310 553)**	**19 770 523**
Total positive fund balance		**50 897 012**	
Net fund balance		**43 586 459**	

Note 17
Non-expendable inventory

In accordance with the accounting policy disclosed in note 2 (b), non-expendable equipment held by UNDCP is not shown as an asset in the statement of assets and liabilities. As per inventory records, the purchase cost of those items was (in United States dollars):

Location of non-expendable equipment	*Value as at 31 December*	
	2001	*1999*
Headquarters	2 240 605	2 820 153
Country offices	2 531 816	1 548 714
Total	**4 772 421**	**4 368 867**

Note 18
Disclosure as to participation in the United Nations Joint Staff Pension Fund

UNDCP is a member organization of the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded defined-benefit plan. The financial obligation of the organization to the Pension Fund consists of its mandated contribution at the rate established by the Assembly, together with its share of any actuarial deficiency payments that might become payable pursuant to article 36 of the regulations of the Fund.

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